Grant Thornton

Annual Consolidated Management Report
Annual Consolidated Report on Payments to Governments

Independent Auditor's Report

Consolidated Financial Statements

CHIMIMPORT AD

31 December 2017

CHIMIMPORT
PUBLIC HOLDING COMPANY

Contents

Consolidated statement of financial position

	Note	31.12.2017 BGN '000	31.12.2016 BGN '000
Assets			
Non-current assets			
Property, plant and equipment	8	423 178	450 202
Investment property	10	405 502	337 574
Investments accounted for using the equity method	6	34 420	30 475
Goodwill	11	32 307	33 042
Other intangible assets	12	171 741	172 032
Long-term financial assets	13	2 606 120	2 452 621
Long-term related party receivables	45	8 758	8 747
Other long-term receivables		1 787	1 890
Deferred tax assets	14	6 720	5 009
Non-current assets		**3 690 533**	**3 491 592**
Current assets			
Inventories	15	47 175	47 434
Short-term financial assets	16	2 425 516	2 423 363
Short-term related party receivables	45	68 920	65 143
Trade receivables	17	102 302	90 204
Tax receivables	18	1 756	1 380
Other receivables	20	179 285	166 660
Insurance and reinsurance receivables	19	43 645	47 373
Reinsurance assets	24.1	81 280	76 829
Cash and cash equivalents	21	2 204 904	1 767 126
Current assets		**5 154 783**	**4 685 512**
Assets included in disposal group classified as held for sale	22	-	7 384
Total assets		**8 845 316**	**8 184 488**

Prepared by: ______________ **/A. Kerezov/**

Executive director: ______________ **/I. Kamenov/**

Date: 30 April 2018

Audited according to the auditor's report dated 30 April 2018:

Mariy Apostolov
Managing Partner
Grant Thornton OOD, Audit firm

Zornitza Djambazka
Registered auditor responsible for the audit

ХИМИМПОРТ АД София

Одиторско дружество София Рег. № 032 ГРАНТ ТОРНТОН ООД

Consolidated statement of financial position (continued)

Equity, reserves and liabilities	Note	31.12.2017 BGN '000	31.12.2016 BGN '000
Equity			
Share capital	23.1	227 236	226 914
Premium reserve	23.2	247 129	246 838
Other reserves	23.3	118 444	85 174
Retained earnings		735 323	731 056
Profit for the period		68 370	52 008
Equity attributable to the shareholders of Chimimport AD		**1 396 502**	**1 341 990**
Non-controlling interest		276 746	261 170
Total equity		**1 673 248**	**1 603 160**
Specialized reserves	24	**278 459**	**276 016**
Liabilities			
Non-current liabilities			
Long-term borrowings	25	1 262 699	1 124 021
Payables to insured individual	26	1 195 555	1 057 762
Long-term trade payables	27	47 599	36 490
Long-term related party payables	45	4 315	4 493
Finance lease liabilities	9.1	2 806	3 582
Pension and other employee obligations	29.2	3 651	2 766
Other long-term liabilities	31.1	4 476	1 856
Other provisions		598	598
Deferred tax liabilities	14	28 210	30 626
Non-current liabilities		**2 549 909**	**2 262 194**
Current liabilities			
Short-term financial liabilities	25	4 116 152	3 781 704
Trade payables	27	97 372	115 966
Short-term related party payables	45	37 419	23 950
Finance lease liabilities	9.1	1 133	1 355
Liabilities to insurance and reinsurance contracts	28	25 415	25 719
Pension and other employee obligations	29.2	14 560	13 107
Tax liabilities	30	6 489	12 071
Other liabilities	31.2	45 160	69 246
Current liabilities		**4 343 700**	**4 043 118**
Total liabilities		**6 893 609**	**6 305 312**
Total equity, specialized reserves and liabilities		**8 845 316**	**8 184 488**

Prepared by: ______________________
/A. Kerezov/

Executive director: ______________________
/I. Kamenov/

Date: 30 April 2018

Audited according to the auditor's report dated 30 April 2018:

Mariy Apostolov
Managing Partner
Grant Thornton OOD, Audit firm

Zornitza Djambazka
Registered auditor responsible for the audit

София
Рег. № 032
ГРАНТ ТОРНТОН ООД

ХИМИМПОРТ АД
София

CHIMIMPORT PUBLIC HOLDING COMPANY

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

	Note	2017 BGN '000	2016 BGN '000
Revenue from non-financial activities	32	433 039	475 813
Expenses for non-financial activities	33	(398 723)	(442 118)
Change in fair value of investment property	10	2 108	3 594
(Loss)/gain on sale of non-current assets	34	(6 133)	7 067
Net result from non-financial activities		**30 291**	**44 356**
Insurance income	35	352 019	331 266
Insurance expense	36	(318 475)	(299 555)
Net insurance result		**33 544**	**31 711**
Interest income	37	199 468	208 843
Interest expense	38	(39 189)	(54 136)
Net interest income		**160 279**	**154 707**
Result from transactions with financial instruments, net	0	**100 721**	**67 088**
Administrative expenses	40	(237 111)	(241 264)
Gains from investments under equity method	6	5 741	3 457
Other financial income	0	36 451	65 794
Allocation of income to secured persons		(45 021)	(51 047)
Profit before tax		**84 895**	**74 802**
Income tax income/(expense)	42	771	(8 918)
Net profit for the period		**85 666**	**65 884**
Other comprehensive income:			
Components not reclassified in the profit or loss:			
Remeasurement of defined benefit liability, net of taxes	29.2	-	(6)
Components reclassified in the profit or loss:			
Revaluation of financial assets, net of taxes		6 245	12 093
Other comprehensive income		**6 245**	**12 087**
Total comprehensive income		**91 911**	**77 971**
Net profit for the year attributable to:			
The shareholders of Chimimport AD		68 370	52 008
Non-controlling interests		17 296	13 876
Total comprehensive income attributable to:			
The shareholders of Chimimport AD		72 617	62 000
Non-controlling interests		19 294	15 971
Basic earnings per share in BGN	43	0.30	0.27
Diluted earnings per share in BGN	43	-	0.24

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

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

Date: 30 April 2018

Audited according to the auditor's report dated 30 April 2018:

Mariy Apostolov **Zornitza Djambazka**

Managing Partner **Registered auditor responsible for the audit**

Grant Thornton OOD, Audit firm

ХИМИМПОРТ АД СОФИЯ

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

CHIMIMPORT
PUBLIC HOLDING COMPANY

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

All amounts are presented in BGN'000	Equity attributable to the shareholders of Chimimport AD					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2017	**226 914**	**246 838**	**85 174**	**783 064**	**1 341 990**	**261 170**	**1 603 160**
Increase in share capital and reserves resulting from change in own shares held by subsidiaries	322	291	-	-	613	-	**613**
Business combinations			3 639	(10 749)	(7 110)	134	**(6 976)**
Dividends	-	-	-	(11 608)	(11 608)	(3 852)	**(15 460)**
Transactions with owners	**322**	**291**	**3 639**	**(22 357)**	**(18 105)**	**(3 718)**	**(21 823)**
Net profit for the year	-	-	-	68 370	68 370	17 296	**85 666**
Other comprehensive income	-	-	4 247	-	4 247	1 998	**6 245**
Total comprehensive income for the year	**-**	**-**	**4 247**	**68 370**	**72 617**	**19 294**	**91 911**
Transfer of retained earnings to other reserves	-	-	25 384	(25 384)	-	-	**-**
Balance at 31 December 2017	**227 236**	**247 129**	**118 444**	**803 693**	**1 396 502**	**276 746**	**1 673 248**

Prepared by: ____________________
/A. Kerezov/

Executive director: ____________________
/I. Kamenov/

Date: 30 April 2018

Audited according to the auditor's report dated 30 April 2018

Mariy Apostolov
Managing partner
Grant Thornton OOD, Audit Firm

Zornitza Djambazka
Registered auditor, responsible for the audit

Одиторско дружество
София
Рег. № 032
Грант Торнтон ООД

Химимпорт АД
София

The accompanying notes on pages from 7 to 100 form an integral part of the consolidated financial statements.

CHIMIMPORT PUBLIC HOLDING COMPANY

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

All amounts are presented in BGN'000	Equity attributable to the shareholders of Chimimport AD					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2016	**225 092**	**218 469**	**71 581**	**762 910**	**1 278 052**	**239 083**	**1 517 135**
Increase in share capital and reserves resulting from change in own shares held by subsidiaries	1 822	28 369	-	-	30 191	-	**30 191**
Business combinations	-	-	(1 936)	(19 059)	(20 995)	8 459	**(12 536)**
Dividends	-	-	-	(7 258)	(7 258)	(2 343)	**(9 601)**
Transactions with owners	**1 822**	**28 369**	**(1 936)**	**(26 317)**	**1 938**	**6 116**	**8 054**
Net profit for the year	-	-	-	52 008	52 008	13 876	**65 884**
Other comprehensive loss	-	-	9 992	-	9 992	2 095	**12 087**
Total comprehensive income for the year	-	-	9 992	52 008	62 000	15 971	**77 971**
Transfer of retained earnings to other reserves	-	-	5 537	(5 537)	-	-	**-**
Balance at 31 December 2016	**226 914**	**246 838**	**85 174**	**783 064**	**1 341 990**	**261 170**	**1 603 160**

Prepared by: ________________
/A. Kerezov/

Executive director: ________________
/I. Kamenov/

Date: 30 April 2018

Audited according to the auditor's report dated 30 April 2018

Mariy Apostolov
Managing partner
Grant Thornton OOD, Audit Firm

Zornitza Djambazka
Registered auditor, responsible for the audit

Одиторско дружество София Рег. № 032 Грант Торнтон ООД

Химимпорт АД

Consolidated statement of cash flows for the year ended 31 December

	Note	2017 BGN'000	2016 BGN'000
Proceeds from short-term loans		56 758	96 266
Payments for short-term loans		(78 951)	(73 423)
Proceeds from sale of short-term financial assets		229 568	847 848
Purchase of short-term financial assets		(239 424)	(851 825)
Cash receipt from customers		414 620	485 020
Cash paid to suppliers		(369 454)	(419 013)
Proceeds from insured persons		136 737	127 795
Payments to insured persons		(23 689)	(29 428)
Payments to employees and social security institutions		(118 139)	(116 540)
Cash receipts from banking operations		43 827 219	40 863 859
Cash paid for banking operations		(43 389 214)	(40 485 492)
Cash receipts from insurance operations		201 596	187 414
Cash paid for insurance operations		(161 068)	(156 082)
Income taxes paid		(2 137)	(2 447)
Other cash outflows		(5 258)	(16 253)
Net cash flow from operating activities		**479 164**	**457 699**
Investing activities			
Sale of associates and subsidiaries, net of cash		-	3 000
Dividends from financial assets received		2 739	2 375
Sale of property, plant and equipment		3 957	10 601
Purchase of property, plant and equipment		(8 484)	(27 798)
Purchase of intangible assets		(1 719)	(2 215)
Sale of investment property		10 983	10 054
Purchase of investment property		(72 035)	(38 221)
Sale of non-current financial assets		875 880	465 724
Purchase of non-current financial assets		(921 175)	(276 114)
Interest payments received		52 324	53 787
Proceeds from loans granted		13 189	38 044
Payments for loans granted		(8 375)	(103 679)
Other cash outflows		(29 191)	(38 947)
Net cash flow from investing activities		**(81 907)**	**96 611**
Financing activities			
Dividends paid		(4 860)	(5 380)
Sale of own shares		613	2 861
Proceeds from loans received		78 766	32 415
Payments for loans received		(16 287)	(33 767)
Interest paid		(7 451)	(11 047)
Payments for finance leases		(1 416)	(1 795)
Other cash outflows		(6 038)	(363)
Net cash flow from financing activities		**43 327**	**(17 076)**
Net change in cash and cash equivalents		**440 584**	**537 234**
Cash and cash equivalents, beginning of period		**1 767 126**	**1 229 113**
Exchange (loss)/gain on cash and cash equivalents		**(2 806)**	**779**
Cash and cash equivalents, end of period	21	**2 204 904**	**1 767 126**

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

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

Date: 30 April 2018

Audited according to the auditor's report dated 30 April 2018:

Mariy Apostolov **Zornitza Djambazka**

Managing Partner **Registered auditor responsible for the audit**

Grant Thornton OOD, Audit firm

ХИМИМПОРТ АД СОФИЯ

ОДИТОРСКО ДРУЖЕСТВО СОФИЯ Рег. № 032 ГРАНТ ТОРНТОН ООД

Notes to the consolidated financial statements

1. Nature of operations

Chimimport AD (the Group) includes the parent company and all subsidiaries, presented in note 5.1. Information about the names, country of incorporation and percent of the shares of the subsidiaries, included in the consolidation, is provided in note 5.1.

The main activities of the Group include the following sectors:

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

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

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

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

- Invest Capital AD
- CCB Group EAD
- Mariana Bazhdarova

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

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

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

As at 31 December 2017 the Group has a total of 5 848 employees (2016: 6 789).

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

2. Basis for the preparation of the consolidated financial statements

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

The parent company Chimimport AD published separate financial statements on 2 April 2018.

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

All amounts are presented in thousand Bulgarian leva (BGN '000) (including comparative information for 2016) unless otherwise stated.

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

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

3. Changes in accounting policies

3.1. New and revised standards that are effective for annual periods beginning on or after 1 January 2017

The Company has adopted the following new interpretations, revisions and amendments to IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Company's financial statements for the annual period beginning 1 January 2017:

- IAS 7 "Statement of Cash Flows" (amended) effective from 1 January 2017, adopted by the EU

These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The Company categorises those changes into changes arising from cash flows and non-cash changes with further subcategories as required by IAS 7 (see Note 0).

- IAS 12 "Income Taxes" (amended) effective from 1 January 2017, adopted by the EU

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

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued, but are not effective or adopted by the EU for the financial year beginning on 1 January 2017 and have not been adopted early by the Company. Information on those expected to be relevant to the Company's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement.

A list of the changes in the standards is provided below:

- IFRS 2 "Share Based Payments" (amended) effective from 1 January 2018, not yet adopted by the EU
- IFRS 4 "Insurance contracts" (amended) effective from 1 January 2018, not yet adopted by the EU
- IFRS 9 "Financial Instruments" effective from 1 January 2018, adopted by the EU

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new ‘expected credit loss’ model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Management of the Parent entity has identified the following areas that are expected to be most impacted by the application of IFRS 9:

- the classification and measurement of the Group’s financial assets will need to be reviewed based on the new criteria that considers the assets’ contractual cash flows and the business model in which they are managed.

Debt instruments

Management adheres to a diversified investment policy in debt and equity instruments. The classification of those instruments depends on the intent and expected yield. Those instruments are held for a different purpose and for a different period.

A substantial portion of the debt instruments held by the Group are held to maturity or sold for the purpose of liquidity management or minimization of expected losses. Therefore, assets reported as “Loans and Receivables” under IAS 39 "Financial Instruments: Recognition and Measurement" fall into a category measured at amortized cost in accordance with IFRS 9 "Financial Instruments".

The Group held debt instruments that do not meet the criterion of solely payments on principal and interest, so those investments are measured at fair value through profit or loss.

Loans and receivables are granted to multiple and different counterparties, which is why the estimated credit loss is carried out on an individual basis. The Group is in process of developing a detailed analysis of the impact of application of IFRS 9 and modelling approaches of assessing expected credit losses.

Equity instruments

The Group holds most of the financial assets to collect the relevant cash flows and estimates the types of cash flows to properly classify the financial assets.

Financial assets held for trading, as well as those designated at fair value through profit or loss, in accordance with IAS 39 "Financial instruments: recognition and measurement", are classified as at fair value through profit or loss under IFRS 9 and the business model estimates applied by the Group. Impact is expected on the financial statements of the Company.

Equity instruments reported in the available for sale category in accordance with the analysis will be presented as equity instruments measured at fair value through other comprehensive income.

Management does not expect the new requirements to have an impact on the classification and accounting of these financial assets. Gains or losses on the sale of financial assets measured at fair value in other comprehensive income will not be recognized in profit or loss but transferred from retained earnings.

- The Company accounts for trade receivables and investments in debt instruments measured at amortized cost and measured at fair value through other comprehensive income within the scope of the impairment model for expected credit losses. The Company applies a simplified approach for assessing the expected credit losses because these assets do not have a financial component.

- The Company owns a number of investments in equity instruments, some of which are held for long-term investment income purposes, while others are short-term with a view to realizing a profit from short-term sale. For this reason, the Company chooses to classify equity instruments in the two categories - measured at fair value through other comprehensive income and measured at fair value through profit or loss.

- As at the date of those statements, the Company does not have the financial assets for which it plans to use the exception proposed in paragraph B.2.3 of IFRS 9, except for the investments made in the available-for-sale shares and units referred to in paragraph 7, which amount to BGN 12 481 thousand. These instruments are not traded on a regulated market and their fair value can not be measured reliably, therefore the cost of acquisition is an appropriate estimate of the fair value. This is due to the specificity of the investment for which the fair value measurement information has a wide range of possible fair value measurements and the cost of the acquisition is the best estimate of the fair value.

Due to high number of economic activities and regional areas in which Group Companies operate, the Management of the Parent Company is in the process of developing instructions for the application of IFRS 9 by the subsidiaries. Due to the significant volume of financial operations and debt instruments held, the Group does not expect an immaterial effect from the initial application of the Standard. Management expects that due to the policies used to manage the financial assets, additional impairments for expected credit losses would arise when the volume of the loan operations by the Group companies increased.

IFRS 9 “Financial Instruments” (amended) – Hedge accounting, effective from 1 January 2018, adopted by the EU

These amendments to IFRS 9, 'Financial instruments', bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

The Company does not operate with significant hedging contracts or other instruments that contain a hedging component and therefore the Management does not expect an impact on the financial statements.

IFRS 9 “Financial Instruments” (amended) – Prepayment features with negative compensation, effective from 1 January 2019, not yet adopted by the EU

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

- IFRS 10 “Consolidated financial statements” and IAS 28 “Investments in associates and joint ventures” (amended), effective date to be determined, not yet adopted by the EU
- IFRS 14 “Regulatory deferral accounts” effective from 1 January 2016, not yet adopted by the EU
- IFRS 15 “Revenue from Contracts with Customers” effective from 1 January 2018, adopted by the EU
- IFRS 15 “Revenue from Contracts with Customers” (amended) effective from 1 January 2018, adopted by the EU

The management of the Company does not expect the entry into force of the new standard to have an impact on its financial statements, because the income from the operations of Chimimport AD is mainly generated by financial instruments and the respective revenues are recognized according to other standards.

- IFRS 16 “Leases” effective from 1 January 2019, adopted by the EU
- IAS 40 “Investment property” (amended) - Transfers of Investment Property effective from 1 January 2018, not yet adopted by the EU
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” effective from 1 January 2018, not yet adopted by the EU
- Annual Improvements to IFRS Standards 2014-2016.

•

4. Summary of accounting policies

4.1. Overall considerations

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

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

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

4.2. Presentation of consolidated financial statements

The consolidated financial statements are presented in accordance with IAS 1 “Presentation of Financial Statements” (revised 2007). The Group has elected to present the consolidated statement of profit or loss and other comprehensive income as a single statement.

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

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

In 2017 one comparative period is presented, as no restatements to the presentation of the elements of the consolidated financial statements and the corresponding reference data. In case there are adjustments to the classification of the elements of the consolidated financial statements, relevant comparative figures have also been reclassified to ensure comparability between reporting periods.

4.3. Basis of consolidation

The consolidated financial statements of the Group have consolidated the financial statements of the parent and subsidiary companies as of 31 December 2017. Subsidiaries are all entities that are under the control of the parent. There is control when a parent is exposed to, or has rights over, the variable return on its participation in the investee and has the potential to impact on that return by virtue of its powers over the investee. All subsidiaries have a reporting period ending on 31 December.

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

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

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

When the Group ceases the control of a subsidiary, any retained interest in the entity is measured to its fair value as at the date of loss of control, with the change in carrying amount recognized in profit or loss. The fair value of any retained interest in the former subsidiary at the date of loss of control is regarded as fair value of initial recognition of financial asset in accordance with IAS 39 “ Financial instruments: Recognitions and measurement”, or where appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs)

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

4.4. Business combinations

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

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

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

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

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

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

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

4.5. Transactions with non-controlling interests

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

4.6. Investments in associates and joint ventures

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

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

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

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

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

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

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

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

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

4.7. Foreign currency transactions

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

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

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

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

4.8. Segment reporting

The Group operates in the following operating segments:

- production, trade and services;
- finance;
- transportation;
- real estate;
- construction and engineering.

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

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

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

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

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

4.9. Revenue

Revenue comprises revenue from the sale of goods and the rendering of services from any of the business segments of the Group. Revenue from major products and services is shown in note 32 Income from non-financial activities, note 34 Profit from sale of non-current assets, note 35 Income from insurance, note 37 Interest income, note 39 Profit from operations with financial instruments.

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

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

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

4.9.1. Sale of goods

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

4.9.2. Rendering of services

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

4.9.3. Bank activity

4.9.3.1. Interest revenue and expenses

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

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

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

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

4.9.3.2. Fees and commissions

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

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

4.9.4. Revenue from insurance activities

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

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

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

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

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

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

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

4.9.5. Revenue from aviation activity

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

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

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

4.9.6. Revenue from pension insurance activity

Revenue related to pension insurance activities is recognized by the fair value of the received or receivable remuneration. The revenue is recognized when the service is completed or when the risk is transferred to the customer. The pension funds of the Group recognize as revenue the fees from Voluntary Pension Fund (VPF), Universal Pension Fund (UPF), and Professional Pension Fund (PPF).

4.9.7. Revenue from government grants

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

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

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

4.9.8. Interest and dividend income

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

4.10. Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the service or at the date of their origin.

4.11. Interest expenses and borrowing costs

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

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

4.12. Goodwill

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

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

4.13. Intangible assets

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

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

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

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

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

- software 2-5 years
- trademarks 6-7 years
- property rights 5-7 years
- licenses 7 years
- certificates 5 years
- industrial property rights 27 - 30 years
- others 7 - 10 years

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

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

4.14. Property, plant and equipment

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

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

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

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

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

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

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

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

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

4.15. Leases

Lessee

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

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

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

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

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

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

Lessor

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

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

4.16. Impairment testing of assets

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

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

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

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

4.17. Investment property

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

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

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

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

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

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

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

4.18. Assets of exploration and evaluation of mineral resources

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

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

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

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

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

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

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

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

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

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

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

4.19. Financial instruments

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

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

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

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

All financial assets are recognized on their transaction date.

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

4.19.1. *Financial assets*

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

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

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

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

Loans and receivables

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

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

Impairment for collectability regarding the banking activity of the Group

The financial assets are impaired in the presence of an indication of impairment: information for financial difficulties; contractual breach; restructuring of the debt; exclusion of the securities from the Stock exchange.

Available-for-sale financial assets measured at their fair value are tested for impairment, regarding the consolidated financial statements, as far as the impairment is not reflected in the revaluation as at the date of the consolidated financial statements. When there are conditions present for impairment, a recoverable value is determined. If the expected recoverable value is less than the gross carrying amount, an impairment test is performed as follows:

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

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

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

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

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

4.19.2. *Financial liabilities*

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

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

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

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

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

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

4.20. Derivative financial instruments

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

4.21. Receivables and liabilities under repurchase agreements

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

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

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

4.22. Provisions for credit-related contingent liabilities

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

4.23. Inventory

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

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

The Group determines the cost of inventories by using the weighted average cost.

When inventory is sold, the carrying amount of those inventories is expensed in the period in which the related revenue is recognized.

4.24. Income taxes

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

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

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

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

Deferred tax liabilities are always provided for in full.

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

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

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

4.25. Cash and cash equivalents

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

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

4.26. Non-current assets and liabilities classified as held for sale and discontinued operations

When the Group intends to sell a non-current asset or a group of assets (a disposal group), and if sale within 12 months is highly probable, the asset or disposal group is classified as 'held for sale' and presented separately in the consolidated statement of financial position.

Liabilities are classified as 'held for sale' and presented as such in the consolidated statement of financial position if they are directly associated with a disposal group.

Assets classified as 'held for sale' are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some 'held for sale' assets such as financial assets or deferred tax assets, continue to be measured in accordance with the Group's accounting policy for those assets. No assets classified as 'held for sale' are subject to depreciation or amortization subsequent to their classification as 'held for sale'.

Any profit or loss arising from the sale or re-measurement of discontinued operations is presented as described in note 22.

4.27. Equity, reserves and dividend payments

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

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

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

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

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

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

4.28. Social security and pension contracts

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

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

The pension plans offered are developed upon previously determined insurance instalments.

The voluntary insurance payments could be at the expense of the individual itself and/or employer and/or other insurer.

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

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

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

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

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

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

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

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

The insured persons of the fund have the right to:

- a periodic pension for early retirement when working under the conditions of I and II category labour, according to the labour category.
- Single disbursement of up to 50% of the amount accumulated in the individual batch in the case of permanent loss of working capacity of over 89.99%.
- Single or periodical disbursement of the accumulated funds from an individual batch to the heirs of a deceased insured person or a pensioner of the fund.

The amount of the professional pension for early retirement is calculated based on:
- The accumulated funds in the individual batch;
- The period for the pension disbursement;
- The technical interest rate, approved by the deputy director of the Financial Supervisory Commission.

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

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

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

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

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

The insured persons of the fund have the right to:
- supplementary life pension for old age after acquiring the right to a length of service and age pension under the requirements of part one of the Social Security Code.
- single disbursement of up to 50% of the amount accumulated in the individual batch in the case of permanent loss of working capacity of over 70.99%.
- single or periodical disbursement of the accumulated funds from an individual batch to the heirs of a deceased insured person or a pensioner of the fund.

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

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

The social insurance contract shall mandatorily be terminated in the following cases:

- upon death of the insured person;
- in the case of a transfer of funds of the insured person to an universal pension fund, managed by another relevant retirement insurance company and the insured person has signed a valid insurance contract with an universal pension fund managed by another pension insurance company for which the change of participation procedure has not been terminated.
- One-time choise of the insured person for transfer of funds from insurance in a universal pension fund to the Pensions Fund for persons under Article 69, but at least 5 years before attaining the age stated in in Article 68 (1), where no contributory-service and retirement-age pension has been granted to them.

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

4.29. Specialized reserves for pension insurance activity

In accordance with the provisions of SSC the Group cumulate pension reserves in order to guarantee minimal pay-out from the activity of the supplementary obligator pension insurance. The pension reserves cumulated up 31 December 2017 1.4% of the assets of the funds. The accumulated reserves are invested according to the requirements of SSC.

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

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

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

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

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

Actuarial gains and losses are recognized in other comprehensive income. Interest expenses related to pension obligations are included in 'Interest expenses' in profit or loss. All other post-employment benefit expenses are included in 'Employee benefits expense'.

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

4.31. Insurance transactions

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

4.32. Insurance contracts

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

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

4.33. Reinsurance contracts

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

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

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

4.34. Insurance reserves

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

4.35. Adequacy test of insurance reserves

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

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

4.36. Provisions, contingent liabilities and contingent assets

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

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

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

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

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

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

4.37. Significant management judgment in applying accounting policies

The following are significant management judgments in applying the accounting policies of the Group that have the most significant effect on the consolidated financial statements. Critical estimation uncertainties are described in note 4.38.

4.37.1. *Deferred tax assets*

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

4.37.2. *Lack of control of subsidiaries*

In cases in which the parent company owns, directly or indirectly, through its subsidiaries more than half of the voting rights in an entity, but does not have the power to govern the financial and operating policies in that entity and/or contractual agreement according to which the Group does not control the entity exists, then the investment in shares of that entity is reclassified as financial asset in accordance with IAS 39.

The parent company owns 97.32% of the equity in the subsidiary PFK Cherno more AD indirectly through subsidiaries. Equity participation does not lead to the acquisition of control according to management contracts for transfer of voting rights from 2012. Therefore, the investment in PFK Cherno more AD is reclassified as financial asset according to IAS 39.

The Group owns 100% of the capital of AO SC Armeec, Russia and Ethyl Med, Russia. In 2016 control over these companies was transferred and therefore the investments in them were reclassified to financial assets under IAS 39.

4.37.3. *Revenue from sale of air tickets with expired validity*

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

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

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

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

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

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

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

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

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

4.38. Estimation uncertainty

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

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

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

4.38.1. *Impairment*

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

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

The Group has incurred an impairment loss of BGN 735 thousand on goodwill in 2017 (2016: BGN 275 thousand) in order to reduce the carrying amount of goodwill to its recoverable amount (see note 11**Error! Reference source not found.**).

4.38.2. *Fair value measurement*

Management uses valuation techniques in measuring the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 51).

4.38.3. *Useful lives of depreciable assets*

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

At 31 December 2017 management assesses that the useful lives represent the expected utility of the assets to the Group. The carrying amounts are analysed in notes 8 and 12. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

4.38.4. *Inventories*

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amounts of inventory assets BGN 47 175 thousand (2016: BGN 47 434) is affected by the future service providing and market realization of inventories, note 0.

4.38.5. *Defined benefit liability*

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

4.38.6. *Provisions*

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

4.38.7. *Business combinations*

On initial recognition, the assets and liabilities of the acquired business are included in the consolidated statement of financial position at their fair values. In measuring fair value management uses estimates about future cash flows and discount rates, however, the actual results may vary. Any measurement changes upon initial recognition would affect the measurement of goodwill. Details of acquired assets and liabilities are given in note 5.

5. Basis of consolidation

5.1. Investments in subsidiaries

The subsidiaries included in the consolidation are as follows:

Name of the subsidiary	Country of incorporation	Main activities	31.12.2017 Percentage of consolidation	31.12.2017 Nominal percentage	31.12.2016 Percentage of consolidation	31.12.2016 Nominal percentage
Central Cooperative Bank AD	Bulgaria	Finance	79.30%	79.31%	79.35%	79.36%
Central Cooperative Bank AD – Skopje	Macedonia	Finance	72.82%	91.83%	72.88%	91.83%
ZAO Investment Corporate Bank	Russia	Finance	68.41%	86.27%	68.46%	86.27%
CCB Group EAD	Bulgaria	Finance	100.00%	100.00%	100.00%	100.00%
CCB Assets Management EOOD	Bulgaria	Finance	79.30%	100.00%	79.35%	100.00%
ZAD Armeec	Bulgaria	Finance	96.26%	96.26%	94.30%	94.30%
Armeec Leasing EOOD	Bulgaria	Finance	96.26%	100.00%	94.30%	100.00%
ZAED CCB Life	Bulgaria	Finance	100.00%	100.00%	100.00%	100.00%
POAD CCB Sila	Bulgaria	Finance	51.57%	56.46%	51.26%	56.46%
DPF CCB Sila	Bulgaria	Finance	51.57%	56.46%	51.26%	56.46%
UPF CCB Sila	Bulgaria	Finance	51.57%	56.46%	51.26%	56.46%
PPF CCB Sila	Bulgaria	Finance	51.57%	56.46%	51.26%	56.46%
Zarneni Hrani Bulgaria AD	Bulgaria	Production, Trade and Services	68.12%	68.12%	68.94%	68.94%
Oil and Gas Exploration and Production AD	Bulgaria	Production, Trade and Services	49.59%	65.92%	50.21%	66.18%
Bulgarska Petrolna Rafinieria EOOD	Bulgaria	Production, Trade and Services	49.59%	100.00%	50.21%	100.00%
Slanchevi lachi Provadia EOOD	Bulgaria	Production, Trade and Services	68.12%	100.00%	68.94%	100.00%
Asenova Krepost AD	Bulgaria	Production, Trade and Services	49.96%	71.91%	48.76%	72.57%
PDNG Service EOOD	Bulgaria	Production, Trade and Services	49.59%	100.00%	50.21%	100.00%
Izdatelstvo Geologia i Mineralni Resursi OOD	Bulgaria	Production, Trade and Services	34.71%	70.00%	35.15%	70.00%
Bulchimtrade OOD	Bulgaria	Production, Trade and Services	44.96%	66.00%	45.50%	66.00%
Rubber Trade OOD	Bulgaria	Production, Trade and Services	40.87%	60.00%	41.36%	60.00%
Chimceltex OOD	Bulgaria	Production, Trade and Services	40.96%	60.13%	41.45%	60.13%
Chimoil BG EOOD	Bulgaria	Production, Trade and Services	49.59%	100.00%	50.49%	100.00%
Zarneni Hrani Grain AD	Bulgaria	Production, Trade and Services	68.12%	100.00%	68.94%	100.00%
Pharmimport AD	Bulgaria	Production, Trade and Services	46.32%	68.00%	46.88%	68.00%
National Stokova Borsa AD	Bulgaria	Production, Trade and Services	75.00%	75.00%	75.00%	75.00%
Asela AD	Bulgaria	Production, Trade and Services	25.68%	51.39%	27.16%	51.39%
AK Plastic OOD	Bulgaria	Production, Trade and Services	49.46%	99.00%	52.31%	99.00%
Prime Lega Consult OOD	Bulgaria	Production, Trade and Services	70.00%	70.00%	70.00%	70.00%

Name of the subsidiary	Country of incorporation	Main activities	31.12.2017 Percentage of consolidation	31.12.2017 Nominal percentage	31.12.2016 Percentage of consolidation	31.12.2016 Nominal percentage
AH HGH Consult OOD	Bulgaria	Production, Trade and Services	59.34%	59.34%	59.34%	59.34%
Omega Finance OOD	Bulgaria	Production, Trade and Services	96.00%	96.00%	96.00%	96.00%
IT Systems Consult EOOD	Bulgaria	Production, Trade and Services	68.12%	100.00%	68.94%	100.00%
Technocapital AD	Bulgaria	Production, Trade and Services	86.40%	90.00%	86.40%	90.00%
Texim Trading AD	Bulgaria	Production, Trade and Services	-	-	35.16%	51.00%
Bulgarian Shipping Company EAD	Bulgaria	Sea and River Transport	100.00%	100.00%	100.00%	100.00%
Parahodstvo Bulgarsko Rechno Plavane AD	Bulgaria	Sea and River Transport	79.89%	79.89%	80.71%	80.71%
Port Balchik AD	Bulgaria	Sea and River Transport	78.64%	100.00%	77.88%	100.00%
Port Lesport AD	Bulgaria	Sea and River Transport	99.00%	99.00%	99.00%	99.00%
Lesport Project Management EOOD	Bulgaria	Sea and River Transport	99.00%	100.00%	99.00%	100.00%
MAYAK KM AD	Bulgaria	Sea and River Transport	41.04%	51.37%	76.07%	94.25%
Bulgarian Logistic Company EOOD	Bulgaria	Sea and River Transport	100.00%	100.00%	100.00%	100.00%
Port Pristis OOD	Bulgaria	Sea and River Transport	43.94%	55.00%	44.39%	55.00%
Portstroi Invest EOOD	Bulgaria	Sea and River Transport	100.00%	100.00%	100.00%	100.00%
Port Invest EOOD	Bulgaria	Sea and River Transport	79.89%	100.00%	80.71%	100.00%
Interlihter Slovakia	Slovakia	Sea and River Transport	79.89%	100.00%	80.71%	100.00%
Bulgarian Airways Group EAD	Bulgaria	Aviation Transport	100.00%	100.00%	100.00%	100.00%
Bulgaria Air AD	Bulgaria	Aviation Transport	99.99%	99.99%	99.99%	99.99%
Bulgaria Air Technique EOOD	Bulgaria	Aviation Transport	99.99%	100.00%	99.99%	100.00%
Airport Consult EOOD	Bulgaria	Aviation Transport	100.00%	100.00%	100.00%	100.00%
Trans intercar EOOD	Bulgaria	Vehicle Transport	100.00%	100.00%	100.00%	100.00%
Rentintercar EOOD	Bulgaria	Vehicle Transport	100.00%	100.00%	-	-
Energoproekt AD	Bulgaria	Construction and engineering	83.25%	83.25%	83.25%	83.25%
Energoproekt Utilities OOD (in liquidation)	Bulgaria	Construction and engineering	42.46%	51.00%	42.46%	51.00%
Bulgaria Air Maintanance EAD	Bulgaria	Real Estate	100.00%	100.00%	100.00%	100.00%
Golf Shabla AD	Bulgaria	Real Estate	32.23%	65.00%	32.64%	65.00%
Sporten Complex Varna AD	Bulgaria	Real Estate	65.00%	65.00%	65.00%	65.00%
Sporten management EOOD	Bulgaria	Real Estate	65.00%	100.00%	65.00%	100.00%
TI AD	Bulgaria	Real Estate	87.66%	87.66%	87.66%	87.66%
Nico-Comers AD	Bulgaria	Real Estate	100.00%	100.00%	100.00%	100.00%
Bulchimex GmBH	Germany	Real Estate	100.00%	100.00%	-	-
Sitniakovo Project Estate EOOD	Bulgaria	Real Estate	49.59%	100.00%	50.49%	100.00%

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

Name of the segment	Accumulated non-controlling interest 2017 BGN‘000	2016 BGN‘000
Financial sector	95 303	69 925
Production, trade and services	129 139	139 757
Transport	21 107	21 819
Real Estate	29 631	28 244
Construction and engineering sector	1 566	1 425
	276 746	**261 170**

During 2017, dividends paid to non-controlling interest amount to BGN 3 852 thousand (2016: BGN 2 343 thousand).

Summary of financial information of the assets and liabilities before intragroup eliminations is disclosed in note 7 Segment Reporting.

5.2. Acquisition of controlling interest of Rentintercar

During 2017 the Group has set up a new subsidiary with a name Rentintercar EOOD. The capital of the newly created company amounts to BGN 2 523 thousand and is formed by an in-kind contribution of vehicles.

5.3. Acquisition of controlling interest in Nico – Comers AD

During 2017 the Group acquired control over the company Niko - Commerce AD, based in Sofia, due to the expiry of the 2010 management contract for the transfer of the voting rights, as a result of which it owns 100% of its equity and voting rights in the company.

The total acquisition cost for the Group amounts to BGN 5,817 thousand, which was allocated to the acquired assets and liabilities of Nico-Comers AD in 2017. The value of each group of acquired assets and liabilities recognized at the acquisition date is presented as follows:

	Recognized cost at acquisition date BGN‘000
Property, plant and equipment	840
Investment property	13 847
Financial assets	16 466
Other assets	17
Cash and cash equivalents	3
Liabilities	(25 356)
Net asset value	**5 817**
Non-controlling interest	-
Fair value of identifiable net assets acquired by the Group	**5 817**

	BGN‘000
Remuneration	5 817
Fair value of identifiable net assets acquired by the Group	(5 817)
Result of acquisition	**-**

5.4. Acquisition of non-controlling interest in ZAD Armeec

During 2017 the Group acquired additional equity in the amount 1.96% in its subsidiary Armeec Insurance Joint Stock Company for the amount of BGN 6 333 thousand, thereby increasing its controlling interest to 96.26% (consolidation).

The carrying amount of the newly acquired net assets of the subsidiary ZAD Armeec recognized at the date of acquisition in the consolidated financial statements amounts to BGN 1 367 thousand. The Group has recognized a reduction in non-controlling interest amounting to BGN 1,367 thousand and a decrease of the retained earnings of BGN 4 966 thousand.

	BGN'000
Total transferred remuneration	(6 333)
Additionally acquired share in the net assets of ZAD Armeec	1 367
Decrease in retained earnings	**(4 966)**

5.5. Sale of part of non-controlling interest in MAYAK KM AD

During 2017 the Group sold equity in the amount of 35.03% in its subsidiary Mayak KM AD for a cash consideration of BGN 4 724 thousand, thus reducing its controlling interest to 41.04% (consolidation).

The carrying amount of the newly acquired net assets of the subsidiary ZAD Armeec AD recognized at the date of acquisition in the consolidated financial statements amounts to BGN 1 367 thousand. The Group has recognized a reduction in non-controlling interest amounting to BGN 1,367 thousand and a decrease of the retained earnings of BGN 4 966 thousand.

The carrying amount of the net assets of the subsidiary Mayak KM AD recognized at the date of sale in the consolidated financial statements as an increase in the non-controlling interest amount to BGN 2 577 thousand. The Group has recognized an increase of retained earnings of BGN 2 147 thousand.

	BGN'000
Total transferred remuneration	4 724
Sold share in the net assets of Mayak KM AD	(2 577)
Increase in retained earnings	**2 147**

5.6. Sale of controlling interest in Texim Trading AD

During 2017 the Group sold its entire shareholding of 35.16% (consolidation) in its subsidiary Texim Trading AD for the amount of BGN 1 231 thousand.

The Group has recognized an increase in retained earnings amounting to BGN 254 thousand, a decrease in the goodwill of BGN 460 thousand and a decrease of the minority interest amounting to BGN 1 025 thousand.

	BGN'000
Sold share in the net assets of Texim Trading AD	(1 025)
Decrease in goodwill	**(460)**
Increase in retained earnings	**254**

6. Investments accounted for using equity method

6.1. Investments in associates

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

	2017 BGN'000	Share %	2016 BGN'000	Share %
Lufthansa Technik Sofia OOD	8 256	24.90%	6 777	24.90%
Swissport Bulgaria AD	5 409	49.00%	4 959	49.00%
Silver Wings Bulgaria OOD	5 132	42.50%	4 817	42.50%
Amadeus Bulgaria OOD	3 343	45.00%	3 182	45.00%
VTC AD	3 502	41.00%	3 214	41.00%
Dobrich fair AD	755	39.98%	745	39.98%
Kavarna Gas OOD	496	35.00%	464	35.00%
	26 893		**24 158**	

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

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

	2017 BGN '000	2016 BGN '000
Assets	117 294	102 985
Liabilities	(60 186)	(49 632)
Revenues	154 846	136 388
Profit for the period	11 807	9 179
Profit attributable to the Group	**4 112**	**3 183**

During 2017 the Group received dividends from its associate companies amounting to BGN 1 387 (2016: BGN 1 810 thousand).

6.2. Investments in joint ventures

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

Name	2017 BGN'000	Share %	2016 BGN'000	Share %
Varna ferry OOD	5 007	50%	5 007	50.00%
Nuance BG AD	2 520	50%	1 310	50.00%
	7 527		**6 317**	

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

	2017 BGN '000	2016 BGN '000
Assets	24 926	28 520
Liabilities	(17 242)	(24 690)
Revenues	49 202	50 072
Profit for the period	4 273	2 706
Profit attributable to the Group	**2 137**	**1 353**
Recognized share of the profit, attributable to the Group	**1 629**	**274**

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

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

7. Segment reporting

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

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

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

According to IFRS 8 the Group applies the same evaluation policy as in the last consolidated financial statements. The operating segments of the Group are as follows: Production, trade and services; Finance sector'; Transport sector; Real estate sector; Construction and engineering sector.

The decrease in the results of the Group's insurance business is due to the effect of the allocation of larger technical reserves. The Group reports a decrease in the operating results of the aviation sector due mainly to the aggressive penetration of LowCost companies on the Bulgarian market as well as the unfavourable weather conditions in Moscow during the summer months of 2017, resulting in delays and respectively high penalties paid by the Group. In October 2017, the Group signed lease agreements for the plant in Provadia with two of the leading companies on the Bulgarian fuel and oil production market, which will lead to a significant increase in results in the "Production, Trade and Services" sector.

Information about the operating segments of the Group is summarized as follows:

Operating segments 31 December 2017	**Production, trade and services**	**Financial sector**	**Transport sector**	**Real estate sector**	**Construction and engineering sector**	**Elimination**	**Consolidated**
	BGN '000	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**
Income from non-financial activities from external customers	98 365	21 932	308 954	5 714	971	(2 897)	433 039
Change in fair value of investment property	(52)	2 160	-	-	-	-	2 108
Gain from sale of non-current assets	(145)	29	(833)	2 059	76	(7 319)	(6 133)
Inter-segment income from non-financial activities	8 341	816	2 844	606	1 258	(13 865)	-
Total income from non-financial activities	**106 509**	**24 937**	**310 965**	**8 379**	**2 305**	**(24 081)**	**429 014**
Result from non-financial activities	**8 974**	**24 937**	**1 205**	**3 492**	**698**	**(9 015)**	**30 291**
Insurance income from external customers	-	352 019	-	-	-	-	352 019
Inter-segment insurance income	-	2 059	-	-	-	(2 059)	-
Total insurance income	**-**	**354 078**	**-**	**-**	**-**	**(2 059)**	**352 019**
Result from insurance	**-**	**34 881**	**-**	**-**	**-**	**(1 337)**	**33 544**
Interest income	6 600	206 500	1 957	744	138	(16 471)	199 468
Interest expenses	(8 275)	(38 049)	(7 495)	(1 348)	(388)	16 366	(39 189)
Result from interest	**(1 675)**	**168 451**	**(5 538)**	**(604)**	**(250)**	**(105)**	**160 279**
Result from transactions with financial instruments, net	**5 667**	**102 883**	**13 522**	**-**	**1**	**(21 352)**	**100 721**
Administrative expenses	**(5 910)**	**(228 383)**	**(10 372)**	**-**	**-**	**7 554**	**(237 111)**
Net result from equity accounted investments in associates	42	-	5 699	-	-	-	5 741
Other financial income/ (expenses)	(421)	41 659	(2 526)	(211)	(51)	(1 999)	36 451
Profit for allocating insurance batches	-	(45 021)	-	-	-	-	(45 021)
Profit for the period before tax	**6 677**	**99 407**	**1 990**	**2 677**	**398**	**(26 254)**	**84 895**
Tax expense	(521)	266	1 356	(319)	(42)	31	771
Net profit for the year	**6 156**	**99 673**	**3 346**	**2 358**	**356**	**(26 223)**	**85 666**
Assets of the segment	720 205	9 283 949	788 388	283 222	15 403	(2 280 271)	8 810 896
Equity accounted investments	4 027	-	23 475	-	2	6 916	34 420
Total consolidated assets	**724 232**	**9 283 949**	**811 863**	**283 222**	**15 405**	**(2 273 355)**	**8 845 316**
Specialized reserves	**-**	**278 459**	**-**	**-**	**-**	**-**	**278 459**
Liabilities of the segment	258 129	6 887 755	370 833	120 362	8 641	(752 111)	6 893 609
Total consolidated liabilities	**258 129**	**6 887 755**	**370 833**	**120 362**	**8 641**	**(752 111)**	**6 893 609**

Operating segments 31 December 2016	Production, trade and services BGN '000	Financial sector BGN '000	Transport sector BGN '000	Real estate sector BGN '000	Construction and engineering sector BGN '000	Elimination BGN '000	Consolidated BGN '000
Income from non-financial activities from external customers	126 528	18 979	310 464	5 719	14 543	(420)	475 813
Change in fair value of investment property	-	(82)	-	-	-	3 676	3 594
Gain from sale of non-current assets	(383)	2 544	62	164	6 470	(1 790)	7 067
Inter-segment income from non-financial activities	12 061	2 220	3 783	65	1 763	(19 892)	-
Total income from non-financial activities	**138 206**	**23 661**	**314 309**	**5 948**	**22 776**	**(18 426)**	**486 474**
Result from non-financial activities	**11 380**	**23 661**	**6 501**	**917**	**2 494**	**(597)**	**44 356**
Insurance income from external customers	-	331 266	-	-	-	-	331 266
Inter-segment insurance income	-	5 036	-	-	-	(5 036)	-
Total insurance income	**-**	**336 302**	**-**	**-**	**-**	**(5 036)**	**331 266**
Result from insurance	**-**	**36 371**	**-**	**-**	**-**	**(4 660)**	**31 711**
Interest income	6 422	217 100	2 076	460	150	(17 365)	208 843
Interest expenses	(8 201)	(55 233)	(6 445)	(1 004)	(618)	17 365	(54 136)
Result from interest	**(1 779)**	**161 867**	**(4 369)**	**(544)**	**(468)**	**-**	**154 707**
Result from transactions with financial instruments	**3 036**	**80 816**	**2 646**	**-**	**-**	**(19 410)**	**67 088**
Administrative expenses	**(6 371)**	**(232 340)**	**(9 131)**	**-**	**-**	**6 578**	**(241 264)**
Net result from equity accounted investments in associates	5	-	3 452	-	-	-	3 457
Other financial income/ (expenses)	(981)	66 329	962	(201)	(72)	(243)	65 794
Profit for allocating insurance batches	-	(51 047)	-	-	-	-	(51 047)
Profit for the period before tax	**5 290**	**85 657**	**61**	**172**	**1 954**	**(18 332)**	**74 802**
Tax expense	(938)	(7 288)	(448)	(52)	(192)	-	(8 918)
Net profit for the year	**4 352**	**78 369**	**(387)**	**120**	**1 762**	**(18 332)**	**65 884**
Assets of the segment	705 220	8 573 450	704 051	256 215	24 320	(2 109 243)	8 154 013
Equity accounted investments in associates	4 027	10	23 351	-	-	3 087	30 475
Total consolidated assets	**709 247**	**8 573 460**	**727 402**	**256 215**	**24 320**	**(2 106 156)**	**8 184 488**
Specialized reserves	**-**	**276 016**	**-**	**-**	**-**	-	**276 016**
Liabilities of the segment	244 985	6 262 283	281 549	96 869	18 042	(598 416)	6 305 312
Total consolidated liabilities	**244 985**	**6 262 283**	**281 549**	**96 869**	**18 042**	**(598 416)**	**6 305 312**

8. Property, plant and equipment

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

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

- for the period ending 31 December 2016:

2016	Land	Building	Plant and equipment	Equipment and spare parts	Vehicles	Improvement on leased assets	Others	Assets in process of acquisition	Total
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
Balance at 1 January 2016	60 243	93 717	179 443	82 107	132 098	22 140	71 577	84 723	**726 048**
Additions:									**-**
- separately acquired	3 114	38 295	1 802	3 086	5 200	1 035	52	22 697	**75 281**
- reclassification	-	-	200	-	1	390	2 508	-	**3 099**
Disposals									
- separately disposed	(10 701)	(6 409)	(5 279)	(204)	(8 947)	(78)	(336)	(39 795)	**(71 749)**
- business combinations	(5)	(834)	(100)	-	(193)	-	(339)	-	**(1 471)**
- reclassification – Investment properties and Intangible assets	-	-	-	-	-	-	-	(7 367)	**(7 367)**
Balance at 31 December 2016	52 651	124 769	176 066	84 989	128 159	23 487	73 462	60 258	**723 841**
Depreciation									
Balance at 1 January 2016	-	(19 068)	(104 706)	(29 338)	(50 426)	(20 848)	(33 215)	-	**(257 601)**
Disposal - business combinations	-	635	425		137		91		**1 288**
Disposal	-	269	3 072	13	4 214	78	337		**7 983**
Depreciation	-	(3 757)	(7 867)	(3 007)	(6 047)	(1 851)	(2 780)	-	**(25 309)**
Balance at 31 December 2016	-	(21 921)	(109 076)	(32 332)	(52 122)	(22 621)	(35 567)	-	**(273 639)**
Carrying amount at 31 December 2016	**52 651**	**102 848**	**66 990**	**52 657**	**76 037**	**866**	**37 895**	**60 258**	**450 202**

All depreciation expenses are included in the consolidated statement of profit or loss and other comprehensive income within "Expenses for non-financial activities".

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

	Land BGN'000	Building BGN'000	Machines BGN'000	Vehicles BGN'000	Other BGN'000	Total BGN'000
Carrying amount as at 31 December 2017	509	15 193	64 287	1 029	301	81 319
Carrying amount as at 31 December 2016	728	10 018	59 244	1 430	3 329	74 769

9. Leases

9.1. Finance leases as lessee

The Group has entered into finance leases as a lessee to acquire machinery and equipment such as ships, cars, industrial machinery and computer equipment. Assets are included in the consolidated statement of financial position in "Property, Plant and Equipment" (see note 8). Net book value of assets acquired under finance leases amounted to BGN 16 607 thousand (2016: BGN 19 387 thousand).

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

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

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

31 December 2016	**Within 1 year BGN '000**	**1 to 5 years BGN '000**	**Total BGN '000**
Lease payments	1 506	3 846	5 352
Finance charges	(151)	(264)	(415)
Net present values	**1 355**	**3 582**	**4 937**

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

9.2. Operating leases as lessee

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

	Within 1 year BGN'000	**1 to 5 years BGN'000**	**After 5 Years BGN'000**	**Total BGN'000**
31 December 2017	55 373	160 956	12 999	**229 307**
31 December 2016	49 175	122 729	27 761	**199 665**

Lease payments recognized as an expense during the period amount to BGN 64 324 thousands (2016: BGN 51 134 thousand).

Significant to the Group operating leases are related to hiring airplanes and real estate. At the date of preparation of this consolidated financial statements, the Group is a lessee under operating leases on 9 aircraft (Airbus and BAE).

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

9.3. Operating leases as lessor

In 2017 and 2016 the Group allows for the lease of airplanes to other companies under operating leases. Revenues from leasing of airplanes rent in 2017 amounted to BGN 12 577 thousand (2016: BGN 9 286 thousand).

During 2017 and 2016 the Group leases real estate of property, plant and equipment, and investment properties under operating leases.

Rental income for 2017 amounting to BGN 4 155 thousand (2016: BGN 6 019 thousand).

Costs incurred in operating the investment properties amounting to BGN 565 thousand are recognized in the consolidated statement of profit and loss and other comprehensive income (2016: BGN 724 thousand).

Future minimum lease payments are as follows:

	Minimum lease payments due			
	Within 1 year BGN '000	1 to 5 years BGN '000	After 5 years BGN '000	Total BGN '000
31 December 2017	10 387	59 542	38 442	**108 371**
31 December 2016	6 848	53 239	33 268	**93 355**

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

10. Investment property

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

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

	Total BGN '000
Carrying amount at 1 January 2016	**302 421**
Additions	
- through acquisition costs	10 969
- separately acquired	29 810
- reclassifications	5 083
Gain from change of the fair value of investment property	6 256
Loss from change of fair value of investment property	(2 662)
Disposals	(14 303)
Carrying amount at 31 December 2016	**337 574**
Additions:	
- through business combination	13 127
- through acquisition costs	62 142
- separately acquired	4 835
- reclassifications	2 729
Gain from change of the fair value of investment property	2 654
Loss from change of fair value of investment property	(546)
Disposals	
- separately written off	(13 457)
- reclassifications	(3 556)
Carrying amount at 31 December 2017	**405 502**

The fair value of the investment property is determined by the Group in accordance with valuation reports from certified valuation specialists, internal group expert reports based on the current market prices.
Investment properties that are pledged as collateral are at the amount of BGN 84 197 thousand (2016: BGN 68 692 thousand).

Revenue from investment properties for the year 2017 amounted to BGN 7 439 thousand (2016: BGN 6 787 thousand) and are included in the consolidated statement of profit or loss and other comprehensive income within "Income from non-financial activities". Contingent rents are not recognized. Direct operating expenses in the amount of BGN 1 125 thousand are recognized as "Expenses for non-financial activities" (2016: BGN 190 thousand).

11. Goodwill

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

	Goodwill BGN'000
2016	
Carrying amount at 1 January	33 317
Impairment loss recognized	(275)
Carrying amount at 31 December	**33 042**
2017	
Carrying amount at 1 January	33 042
Impairment loss recognized	(735)
Carrying amount at 31 December	**32 307**

For the purpose of annual impairment testing in 2017 the carrying amount of goodwill is allocated to the following cash-generating units:

	2017 BGN'000	2016 BGN'000
ZAD Armeec	8 541	8 541
Zarneni Hrani Bulgaria AD	8 473	8 473
Central Cooperative Bank AD	5 311	5 311
CCB Group EAD	3 507	3 507
Central Cooperative Bank AD – Skopje	3 058	3 058
Natsionalna Stokova Borsa AD	655	655
TI AD	646	921
Asenova Krepost AD	628	628
Parahodstvo Balgarsko Rechno Plavane AD	580	580
Osil and Gas Exploration and Production AD	358	358
Bulchimeks OOD	217	217
Port Lesport AD	164	164
Slanchevi Lachi Provadia EAD	76	76
Omega Finance OOD	47	47
POAD CCB Sila	46	46
Teksim Trading AD	-	460
	32 307	**33 042**

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

In 2017 impairment of goodwill was carried, associated with TI AD totalling BGN 275 thousand and Texim Trading AD totalling BGN 460 thousand (2016: 275 thousand). The impairment of goodwill is included within "Expenses for non-financial activities" and "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

12. Other intangible assets

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

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

- For the period ended 31 December 2016

2016	**Trade marks**	**Licenses and patents**	**Software products**	**Customer relationships**	**Research and development activities**	**Exploration and evaluation expenditures**	**Property rights**	**Other**	**Total**
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
Gross carrying amount									
Balance at 1 January 2016	44 888	8 774	9 448	12 239	1 145	17 911	26 915	127 774	249 094
Additions:									
- separately acquired	-	134	833	-	-	1 012	4 214	1 226	7 419
- reclassified assets	-	-	-	-	-	-	-	2 284	2 284
Disposals									
- reclassified assets	-	-	-	-	-	(2 505)	-	(594)	(3 099)
- through business combination	-	-	-	(6 181)	-	-	-	-	(6 181)
- separately disposed	-	(3)	(118)	-	-	(5 052)	(5 609)	(876)	(11 658)
Balance at 31 December 2016	44 888	8 905	10 163	6 058	1 145	11 366	25 520	129 814	237 859
Amortization and impairment									
Balance at 1 January 2016	(32 627)	(5 751)	(8 201)	(3 176)	(52)	-	-	(5 465)	(55 272)
Reclassified assets	-	-	(20)	(82)	-	-	-	-	(102)
Disposals	-	3	29	-	-	-	-	20	52
Amortization	(3 188)	(398)	(892)	(1 509)	-	-	-	(4 518)	(10 505)
Balance at 31 December 2016	(35 815)	(6 146)	(9 084)	(4 767)	(52)	-	-	(9 963)	(65 827)
Carrying amount at 31 December 2016	**9 073**	**2 759**	**1 079**	**1 291**	**1 093**	**11 366**	**25 520**	**119 851**	**172 032**

Established Property Right

Established property rights to the buildings relate to massive office buildings, located in several major cities in the country, which will be used for branches of CCB AD. Rights to use the buildings are set up in 2011 and 2012 and 2014 for the terms until 2020, 2022 and 2031 for a total amount of BGN 21 499 thousand (2016: BGN 25 520 thousand). Carrying amount of each entitlement is amortized in equal instalments for the period of use of buildings.

Trade marks

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

Exploration and evaluation expenditures

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

As at 31 December 2017 the Group recognized exploration and evaluation expenditures in Block 1-12 Knezha, Block 1-4 Kavarna and Block 1-17 Ovcha mogila in the amount of BGN 11 625 thousand (2016: BGN 11 366 thousand).

	2017 BGN'000	2016 BGN'000
Block 1-12 Knezha	7 769	7 533
Block 1-17 Ovcha mogila	3 856	3 833
	11 625	**11 366**

As at the end of the reporting period management has made a technical and financial review of the assets for exploration and evaluation for the purpose of confirmation of the intention to continue exploration activities.

No indications of impairment were identified in 2017.

All amortization expenses are included in the consolidated statement of profit or loss and other comprehensive income within "Expenses for non-financial activities" and "Administrative expenses".

No intangible assets have been pledged as security for liabilities.

13. Long-term financial assets

The amounts, recognized in the consolidated statement of financial position, include the following categories of long-term financial assets:

	Note	2017 BGN'000	2016 BGN'000
Loans and receivables	13.1	2 021 217	1 914 270
Financial assets at fair value through profit or loss	13.2	4 564	13 184
Available-for-sale financial assets	13.3	580 339	525 167
		2 606 120	**2 452 621**

13.1. Loans and receivables

	Note	2017 BGN'000	2016 BGN'000
Long-term loans and advances to customers	13.1.1	1 912 644	1 820 930
Impairment		(56 328)	(66 339)
		1 856 316	**1 754 591**
Other long-term loans	13.1.2	164 901	159 679
		2 021 217	**1 914 270**

As at 31 December 2017 the recognized impairment of the granted bank loans to clients is at the total of BGN 118 330 thousand, both for the current and non-current loans.

13.1.1. Analysis of long-term loans and advances to clients

	2017 BGN'000	2016 BGN'000
Analysis by type of the client:		
Individuals		
-in BGN	501 235	343 308
-in foreign currency	139 806	74 649
Legal entities		
-in BGN	625 558	617 397
-in foreign currency	646 045	785 576
	1 912 644	1 820 930
Impairment	(56 328)	(66 339)
Total bank loans granted and client advance payments	**1 856 316**	**1 754 591**

	2017 BGN'000	2016 BGN'000
Analysis by economic sectors:		
Agriculture and forestry	48 939	894 278
Manufacturing	63 647	417 957
Construction	209 091	205 205
Trade and finance	757 433	126 656
Transport and communications	100 387	64 433
Individuals	641 041	28 950
Others	92 107	83 451
	1 912 644	**1 820 930**
Impairment	(56 328)	(66 339)
Total bank loans granted and client advance payments	**1 856 316**	**1 754 591**

Interest rates

Loans granted in Bulgarian leva and foreign currency, are accumulated with variable interest rates. According to the terms of the contracts the interest rate is calculated by a base interest rate of the subsidiary banks plus a premium. The regular loan premium is between 2% and 7%, depending on the credit risk, related to the respective borrower. On overdue loans is accrued additional surplus above the contractual interest rate.

13.1.2. Other long-term loans

	2017 BGN'000	2016 BGN'000
Receivables on loans granted	152 993	159 679
Other	11 908	-
	164 901	**159 679**

Long-term loans granted by the Group outside of banking, represent principal and accrued interest to them relating to loans to unrelated parties. Loans are granted at market interest rates. The maturity of loans is after 31 December 2017. The Loans are not collateralised.

13.2. Financial assets measured at fair value through profit or loss

The long-term financial assets of the Group represent investing of own resources and specialized reserves according to the Social Security Code to cover the minimal profitability of the additional mandatory pension fund. The financial assets are measured at fair value through profit or loss, defined as such at first recognition.

	2017 BGN'000	2016 BGN'000
Bulgarian corporate stocks and shares	4 564	9 272
Foreign corporate stocks and shares	-	3 912
	4 564	**13 184**

In accordance with the Group's policies the fair value of financial assets is based on quoted prices for the listed instruments or expert valuation for all unquoted instruments.

13.3. Available-for-sale financial assets

	2017 BGN'000	2016 BGN'000
Corporate bonds	40 987	24 168
Equity investments with market value	27 855	88 265
Equity investments in stocks and shares, unlisted on the public Stock Exchange	82 362	15 337
Long-term Bulgarian government bonds	97 067	284 930
Mid-term Bulgarian government bonds	189 483	74 961
Foreign corporate bonds	144 415	37 506
Impairment	(1 830)	-
	580 339	**525 167**

Their fair value of Available for sale financial instruments is based on quoted prices as at date of the consolidated financial statements, except for the equity investments in shares and units of companies that are not traded on a public stock exchange in Bulgaria or abroad. Unquoted instruments are presented at cost, which as at 31 December 2017 is amounting to BGN 82 362 thousand (2016: BGN 15 337 thousand).

Bulgarian securities pledged as collateral

As at 31 December 2017 and 2016 no corporate bonds issued by Bulgarian government are pledged as collateral for servicing of budget accounts.

14. Deferred tax assets and liabilities

Deferred taxes arising from temporary differences can be summarized as follows:

Deferred tax liabilities/ (assets)	1 January 2017 BGN'000	Recognized as result of business combinations BGN'000	Recognized in equity BGN'000	Recognized in profit or loss BGN'000	31 December 2017 BGN'000
Non-current assets					
Property, plant and equipment	9 436	-	-	(62)	9 374
Long – term financial assets	628	-	190	(832)	(14)
Investment property	3 837	1 294	-	(16)	5 115
Others	9 527	662	274	(4 055)	6 408
Current assets					
Inventory	-	-	-	(46)	(46)
Trade and other receivables	(613)	-	-	68	(545)
Financial assets	6 966	-	-	292	7 258
Others	204	-	-	(149)	55

Non-current liabilities					
Pension and other employee obligations	(338)	-	(110)	50	(398)
Provisions and trade payables	(301)	-	-	241	(60)
Other	-		(1)	(89)	(90)
Current liabilities					
Pension and other employee obligations	(398)		(8)	(370)	(776)
Others	28		-	(213)	(185)
Unused tax losses	(3 359)		-	(1 247)	(4 606)
	25 617	**1 956**	**345**	**(6 428)**	**21 490**
Recognized as:					
Deferred tax asset	**(5 009)**				**(6 720)**
Deferred tax liability	**30 626**				**28 210**

Deferred taxes for the comparative period 2016 can be summarized as follows:

Deferred tax liabilities/ (assets)	**1 January 2016**	**Recognized in equity**	**Recognized in profit or loss**	**31 December 2016**
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**
Non-current assets				
Property, plant and equipment	9 401	-	35	9 436
Long - term financial assets	(502)	1 100	30	628
Investment property	3 753	5	79	3 837
Others	9 500	-	27	9 527
Current assets				
Trade and other receivables	(616)	-	3	(613)
Financial assets	4 958	-	2 008	6 966
Others	252	(1)	(47)	204
Non-current liabilities				
Pension and other employee obligations	(291)	(12)	(35)	(338)
Provisions and trade payables	(689)	55	333	(301)
Current liabilities				
Pension and other employee obligations	(413)	(3)	18	(398)
Others	(414)	(1)	443	28
Unused tax losses	(2 967)	(14)	(378)	(3 359)
	21 972	**1 129**	**2 516**	**25 617**
Recognized as:				
Deferred tax assets	**(5 892)**			**(5 009)**
Deferred tax liabilities	**27 864**			**30 626**

15. Inventory

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

	2017 BGN'000	2016 BGN'000
Raw materials	10 505	9 999
Production	2 039	1 878
Trading goods	10 069	16 215
Work in progress	1 791	1 377
Spare parts	6 194	6 100
Assets, acquired through collaterals	16 289	11 440
Others	288	425
	47 175	**47 434**

As at 31 December 2017 inventories of the Group amounting to BGN 11 083 thousand (2016: BGN 11 361 thousand) are pledged as collateral.

Assets acquired through collateral amounting to BGN 16 289 thousand related to assets acquired from the Group's banking activities that do not meet the criteria for classification as held for sale and are accounted for under the requirements of IAS 2 Inventories.

16. Short-term financial assets

Financial assets, recognized in the consolidated statement of financial position, include the following categories short-term financial asset:

	Note	2017 BGN'000	2016 BGN'000
Loans and receivables	16.1	879 432	911 698
Financial assets measured at fair value through profit or loss	16.2	1 425 759	1 332 561
Held-to-maturity financial assets	16.3	36 469	30 188
Available for sale financial assets	16.4	83 856	148 916
		2 425 516	**2 423 363**

16.1. Loans and receivables

	Note	2017 BGN'000	2016 BGN'000
Loans and advances to customers	16.1.1	525 495	521 479
Impairment		(62 002)	(30 336)
		463 493	**491 143**
Other short-term loan contracts	16.1.2	177 980	181 544
Receivables under sale-purchase agreements	16.1.3	237 959	239 011
		879 432	**911 698**

16.1.1. Short-term bank loans and client advance payments

The short-term bank loans and advances to customers occurred in relation with bank activities of the Group can be presented as follows:

	2017 BGN'000	2016 BGN'000
Analysis by type of the client:		
Individuals		
-in BGN	134 033	98 829
-in foreign currency	45 393	21 788
Legal entities		
-in BGN	163 459	175 727
-in foreign currency	182 610	225 135
	525 495	**521 479**
Impairment	(62 002)	(30 336)
Loans and advances to customers	**463 493**	**491 143**

	2017 BGN'000	2016 BGN'000
Analysis by economic sectors:		
Agriculture and forestry	12 817	8 347
Manufacturing	17 215	18 518
Construction	56 416	58 927
Trade and finance	207 233	254 593
Transport and communications	27 666	36 398
Individuals	179 426	120 617
Others	24 722	24 079
	525 495	**521 479**
Impairment	(62 002)	(30 336)
Loans and advances to customers	**463 493**	**491 143**

16.1.2. Contracts for other short-term loans

	2017 BGN'000	2016 BGN'000
Short term loan receivables	140 313	116 602
Receivables from cessions agreements	37 667	64 942
	177 980	**181 544**

The short-term loans are granted at annual interest levels between 3% - 10% depending on the credit terms.

The fair value of these loans granted is not individually determined. The management considers the carrying amount to be a reasonable approximation of their fair value.

16.1.3. Receivables under sale-purchase agreements

As of 31 December 2017 the Group has signed agreements with a sale-purchase clause amounting to BGN 237 959 thousand (2016: BGN 239 011 thousand), including interest receivables.

Some of them amounting to BGN 54 933 thousand are secured by a pledge of the Bulgarian government securities of the same value. The rest amounting to BGN 183 026 thousand are secured by a pledge of corporate securities of approximately the same value.

16.2. Financial assets at fair value through profit or loss

The financial assets classified in this category meet the requirements for financial assets held for trading.

	2017 BGN'000	2016 BGN'000
Bulgarian corporate bonds and shares	583 818	542 198
Bulgarian corporate securities	149 759	97 775
Shares issued or guaranteed by other countries	433 070	471 195
Long-term Bulgarian government bonds	56 613	57 081
Mid-term Bulgarian government bonds	200 193	163 682
Short-term Bulgarian government bonds	1 281	63
Derivatives, held-for-trade	1 025	21
Bank deposits	-	546
	1 425 759	**1 332 561**

Bulgarian corporate bonds and shares
As at 31 December 2017 the Group owns corporate securities, issued by municipalities, non-financial and financial companies, amounting to BGN 583 818 thousand (2016: BGN 542 198 thousand). These securities represent shares of public trade companies, listed on the Bulgarian Stock Exchange, which are stated at fair value, as they are liquid on the stock market as well as securities of companies that are not publicly traded on Bulgarian stock exchange and their fair value is evaluated by a licensed valuation specialist.

Bulgarian government bonds
Bulgarian government bonds are recognized at fair value and include securities in BGN, issued by the Bulgarian Government. They are classified as short-, mid- or long-term, depending on their maturity, set at the issue date.
As at 31 December 2017 the Group holds Bulgarian government bonds at the amount of BGN 258 087 thousand (2016: BGN 220 826 thousand).

Derivatives, held-for-trade
As at 31 December 2017 derivatives held-for-trade amounting to BGN 1 025 thousand (2016: 21 thousand) are recognized at fair value and consist of contracts for trade of foreign exchange, securities, forward contracts and foreign exchange swaps traded on the open market

Bulgarian securities pledged as collateral
As of 31 December 2017 and 2016 there are no government bonds issued by the Bulgarian government, pledged as collateral for servicing budget accounts.

Securities issued or guaranteed by other countries
As at 31 December 2017 the Group holds debt securities issued or guaranteed by EU members and third countries at the amount of BGN 433 070 thousand (2016: BGN 471 195 thousand).

16.3. Financial assets held-to-maturity

	2017 BGN'000	2016 BGN'000
Short-term Macedonian government securities	16 214	15 635
Short-term bonds issued by the National Bank of the Republic of Macedonia	17 796	14 553
Short-term Bulgarian bonds due to 1 year	2 459	-
	36 469	**30 188**

Short-term government bonds issued by the Republic of Macedonia
The short-term government bonds and the bonds issued by the National Bank of the Republic of Macedonia do not have market value and their fair value cannot be determined reliably.

16.4. Available for sale financial assets

	2017 BGN'000	2016 BGN'000
Short-term Bulgarian government bonds	30 835	68 000
Equity investments, not quoted on the stock exchange	21 756	57 575
Foreign government bond investments	20 713	-
Corporate bonds	9 396	-
Lont-term Bulgarian government bonds	921	938
Foreign equity investments	-	3 776
Others	235	18 627
	83 856	**148 916**

17. Trade receivables

	2017 BGN'000	2016 BGN'000
Trade receivables, gross	106 969	94 965
Impairment	(4 667)	(4 761)
Trade receivables	**102 302**	**90 204**

All receivables are short-term. The carrying amount of the trade receivables is considered a reasonable approximation of their fair value.

All trade receivables of the Group have been reviewed for indications of impairment. Certain trade receivables were written off and the relevant impairment amounting to BGN 269 thousand (2016: BGN 284 thousand) has been recognized in the consolidated statement of profit or loss and other comprehensive income within “Expenses for non-financial activities”. The written off trade receivables are mostly due from trade customers that are experiencing financial difficulties.

Change in the receivables impairment can be presented as follows:

	2017 BGN'000	2016 BGN'000
Balance as at 1 January	**4 761**	**6 171**
Written off amounts	(363)	(1 694)
Impairment loss	269	284
Balance as at 31 December	**4 667**	**4 761**

18. Tax receivables

	2017 BGN'000	2016 BGN'000
Corporate income tax receivables	87	326
VAT receivables	1 663	965
Excise receivables	3	3
Other	3	86
	1 756	**1 380**

19. Insurance and reinsurance receivables

	2017 BGN'000	2016 BGN'000
Receivables on accrued premiums on insurance contracts	43 454	37 019
Reinsurance contracts	62	6 277
Regression estimates	-	4 077
Estimates on co-insurance contracts	129	-
	43 645	**47 373**

20. Other receivables

	2017 BGN'000	2016 BGN'000
Court receivables	60 721	62 128
Short-term deposits and guarantees	10 278	24 821
Prepaid expenses	12 757	12 315
Advance payments	36 210	17 722
Others	59 319	49 674
	179 285	**166 660**

Significant portion of court receivables amounting to BGN 60 721 thousand (2016: BGN 62 128 thousand) are related to court case against counterparty under liquidation. The court case is related to priority charting contracts.

Significant part of short-term deposits and guarantees are cash guarantees at the total amount of BGN 10 278 thousand (2016: BGN 24 821 thousand). Those amounts are related to warranty contracts for leasing of airplanes receivables guarantees service airports, guarantees the rental of premises and other contracts and guarantee issued against Customs Sofia for duty free commercial activities.

Prepaid expenses amounting to BGN 12 757 thousand (2016: BGN 12 315 thousand) are occurred from prepayments for advertising, rent, insurance, etc.

21. Cash and cash equivalents

Cash and cash equivalents include the following components:

	2017 BGN'000	2016 BGN'000
Cash at bank and on hand:		
- BGN	1 759 643	1 334 884
- EUR	122 279	140 405
- USD	199 217	178 900
- other currencies	123 765	112 937
	2 204 904	**1 767 126**

	2017 BGN'000	2016 BGN'000
Cash amounts placed to Central Banks	1 601 438	1 126 315
Short-term investments and deposits	20 705	300 258
Placements with, and advances to, banks	561 479	334 183
Restricted cash and cash equivalents	21 282	6 370
	2 204 904	**1 767 126**

22. Non-current assets held for sale

The carrying amount of the assets classified as held-for-sale can be presented as follows:

	2017 BGN'000	2016 BGN'000
Property, plant and equipment	-	7 384
Non-current assets, classified as held-for-sale	**-**	**7 384**

Non-current assets classified as held for sale represent real estate acquired by the Group's banks as a collateral for granted and non-performing loans (2016: BGN 7 384 thousand).

As at 31 December 2017 assets amounting to BGN 4 849 thousand which do not meet the criteria for classification as held for sale, are presented under "Inventories".

23. Equity

23.1. Share capital

The share capital of Chimimport AD as at 31 December 2017 consists of 239 646 267 (31.12.2016: 239 646 267) ordinary shares with a par value of BGN 1 per share, including 12 410 519 (31.12.2016: 12 732 039) ordinary shares, acquired by companies of Group of Chimimport AD. The ordinary shares of Chimimport AD are registered and subject to unrestricted transfers and entitle 1 voting right and liquidation quota. The preferred shares do not entitle voting rights. They give the owner the right to a cumulative guaranteed dividend and to a guaranteed liquidation quota of the Group's estate.

	2017 Number of shares	2016 Number of shares
Shares issued and fully paid at 1 January:	226 914 228	225 092 055
Change in own shares /ordinary and preferred/, acquired by subsidiaries during the year	321 520	1 822 173
Shares issued and fully paid as at period end	**227 235 748**	**226 914 228**

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

	2017 Number ordinary shares	2017 %	2016 Number ordinary shares	2016 %
Invest Capital AD	174 847 247	72.96%	175 002 247	73.03%
POAD CCB - Sila	7 872 107	3.29%	7 464 307	3.11%
PIC Syglasie	7 309 150	3.05%	2 965 952	1.24%
ZAD Armeec	3 236 507	1.35%	3 211 507	1.34%
DSK – Funds	2 284 238	0.95%	2 284 238	0.95%
Saglasie – LIC	2 138 331	0.89%	2 109 081	0.88%
Expat Bulgaria SOFIX Justice BTF	1 863 911	0.78%	1 796 983	0.75%
UPF Badeshte	1 388 301	0.58%	1 388 301	0.58%
HORIZON GROWTH FUND N.V.	1 329 629	0.56%	-	-
CCB Group AD	1 296 605	0.54%	1 863 605	0.78%
EUROINS ROMANIA ASIGURARE-REASIGURARE	1 272 108	0.53%	2 002 108	0.84%
The Bank of New York Mellon	1 162 876	0.49%	2 642 238	1.10%
Eaton Vance Emerging Markets	1 155 510	0.48%	825 588	0.35%

	2017 Number ordinary shares	2017 %	2016 Number ordinary shares	2016 %
Unicredit Bank Austria	464 921	0.19%	557 594	0.23%
Piraeos Bank Bulgaria	331 950	0.14%	645 391	0.27%
BNPPARIBAS SECURITIES SERVICES S.C.A.	242 624	0.10%	242 624	0.10%
Raiffeisen Bank International AG	74 225	0.03%	34 225	0.01%
NN pension funds	-	-	670 287	0.28%
Blackrock Frontier Markets Fund	-	-	32 308	0.01%
Other entities	14 220 866	5.93%	17 843 123	7.45%
Other individuals	17 155 161	7.16%	16 064 560	6.70%
	239 646 267	**100.00%**	**239 646 267**	**100.00%**
CCB Group AD	(1 296 605)	-0.54%	(1 863 605)	-0.78%
ZAD Armeec	(3 236 507)	-1.35%	(3 211 507)	-1.34%
POAD CCB - Sila	(7 872 107)	-3.29%	(7 464 307)	-3.11%
CCB AD	-	-	(192 620)	-0.08%
Trans Intercar AD	(5 300)	-0.00%	-	-
	(12 410 519)	**-5.17%**	**(12 732 039)**	**-5.31%**
Net number of shares	**227 235 748**		**226 914 228**	

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

23.2. Share premium

	2017 BGN'000	2016 BGN'000
Share premium from 2009, 2007 and 2006	246 838	257 674
Decrease of the reserve of treasury shares by acquired by subsidiaries for the period	291	(10 836)
	247 129	**246 838**

During 2017 the share premium has increased with the amount of BGN 291 thousand as a result of acquisition of Parent entity equity instruments of subsidiaries of the Group.

As at 31 December 2017 premium reserve amounts to BGN 247 129 thousand (2016: BGN 246 838 thousand). Premium reserve is formed by the issue of privilege shares from 2009 and two issues of ordinary shares from 2007 and 2006

23.3. Other reserves

As at 31 December 2017 amount of other reserves equals to BGN 118 444 thousand (2016: BGN 85 174 thousand). Other reserves include the revaluation surplus in a defined benefit plan in the amount of BGN 78 thousand (2016: the amount of BGN 85 thousand).

24. Specialized reserves

	Note	2017 BGN'000	2016 BGN'000
Insurance technical reserves	24.1	262 774	262 966
Pension fund reserves	24.2	15 685	13 050
		278 459	**276 016**

24.1. Insurance reserves and reinsurance assets

Insurance technical reserves	**Note**	**2017 BGN'000**	**2016 BGN'000**
Premium reserve carried forward	24.1.1	84 480	69 299
Reserve for outstanding payments	24.1.2	167 839	176 884
Reserve for bonuses and discounts	24.1.3	2 251	2 219
Reserve in accordance with art. 8a from Ordinance № 27	24.1.4	-	1 447
Additional reserve with art. 11a from Ordinance № 27	24.1.4	-	10 056
Contingency fund	24.1.5	865	865
Mathematical reserve	24.1.6	802	1 992
Unexpired risk reserve	24.1.7	6 537	204
		262 774	**262 966**

Reinsurance assets	**2017 BGN'000**	**2016 BGN'000**
Reinsurers' share in the premium reserve carried forward	16 164	14 635
Reinsurers' share in the reserve for outstanding payments	64 528	61 302
Reinsurers' share in the reserve for bonuses and discounts	588	579
Reinsurers' share in the shortage reserve according to art. 8a, Ordinance 27	-	313
	81 820	**76 829**

Insurance reserves for 31 December 2017 are set aside in the course of the Group's insurance activity, conducted by ZAD Armeec and CCB Life EAD.

Reserves adequacy

The Group's actuary periodically assesses whether the general reserves formed, less the deferred acquisition expenses, are sufficient to cover any future payments. As required by regulatory institutions the sum of the formed reserves must be fully secured by investments in highly liquid assets.

In assessing the adequacy of reserves, the Group takes into account the cash flows for the payment of compensations, cash flows generated by the premiums collected and the commissions paid.

24.1.1. Premium reserve carried forward

Premium reserve carried forward as at 31 December 2017 amounts to BGN 84 480 thousand (2016: BGN 69 299 thousand). The Group forms unearned premium reserve based on the accrued insurance premiums. All outstanding policy contributions are accrued over the life of the contract for one-year policies and for multiannual premiums with a one-time payment of the premium. The annual premium is charged for multiannual insurance premiums.

The exact-date method is applied separately for each policy. The premium carried forward for insurances Cargo and Hauler's Liability insurance is calculated for the one-month term of the insurance. The basis for calculation is separate for each promissory note. The calculations are performed by a program set in the information system of the Group.

The reinsurers' share in the premium reserve carried forward is calculated in proportion to the assigned premium on each promissory note. For the reinsurance contract „excess of loss" and "stop loss" as well for the finite contract of insurance "AR of the driver", the reinsurers' share is not set aside.

24.1.2. Reserves for outstanding payments

As of 31 December 2017 and 31 December 2016, the outstanding payments reserve amounted to BGN 167 839 thousand and BGN 176 884 thousand respectively.

24.1.2.1. Incurred but not settled (IBNS) Reserve

IBNS reserve is calculated by applying the claim by claim approach. For damages brought under court claims regarding "Casco insurance" and "MTPL", "Fire and natural disasters" and "General civil liability", an adjustment coefficient is applied in accordance with art. 90, par. 12 of Regulation No 53. The coefficient values are 91% for Casco insurance, 48% for non-pecuniary damages and 88% for pecuniary damages on Public liability insurance of drivers, 62% "Fire and natural disasters" and 39% "General civil liability".

Estimations are based on preliminary assessment and description of the damages. Calculations are carried out on the basis of statistical data about the registered claims in the Group's information system.

The reinsurer portion in the reserve for occurred and presented claims is calculated in accordance with the clauses contained in the reinsurance contract regarding the policy covering the damage.

24.1.2.2. Incurred but not reported (IBNR) Reserve

Applied method – Chain-ladder method:

The reserve for occurred, but not presented claims is calculated by applying the chain-ladder method with the accumulated amounts of each type of insurance offered by the Group. This method is applied for the period being 2007-2017. Where for insurance there are large deviations in the coefficients for the respective years these years are not taken into account when calculating the reserve.

For insurance MTPL the reserve for incurred but not reported shall be considered separately as property and non-pecuniary damages. The reserve for incurred but not reported material damage has approved a combination of chain-ladder method based on accumulated historical values of filed claims using weighted development coefficients obtained by personal data of the company and the chain-ladder method based on accumulated paid claims, using weighted development coefficients obtained by private data of the company in a 50/50 relation. The reserve for incurred but not reported non-material damage has approved a combination of chain-ladder method based on accumulated historical values of filed claims using weighted development coefficients obtained by personal data of the company and the chain-ladder method based on accumulated paid claims, using weighted development coefficients obtained by private data of the company in a 50/50 relation. The period taken as the basis for calculating the reserve is eleven years - 2007 - 2017. The method described is the method under art. 92 para. 11 of Regulation No. 53, which is used to determine the sufficiency of the insurance reserve. The method has been approved for a manner of calculation of the insurance reserve as at 31.12.2017 by a decision of FSC № 405 / 16.04.2018. The reserve is calculated together for the "MTPL" of motorists and "MTPL abroad".

The reserve for incurred, but not reported claims is calculated separately for insurance "Green Card", using the chain-ladder method based on accumulated historical values of filed claims using the weighted coefficients for development received in their own company data and chain-ladder method based on accumulated values of paid claims using the weighted coefficients for development received in their own company data in a 50/50 relation. The method is used separately for property and non-pecuniary damages. The data were for the period 2007-2017.

For insurances, in which the Group provides reinsurance and has statistics on damages of a minimum of three years, the reserve for incurred but not reported damages is calculated separately for direct insurance and reinsurance.

Upon active reinsurance appealing damages is slowed considerably over time compared to appealing them under direct insurance and sufficient data for the application of chain-ladder method separately for both business is more reasonable to be calculated on a separate basis. For insurances "Casco of aircrafts" and "Fire and Natural Disasters" the Group measures the reserve for incurred but not reported losses separately for direct insurance and active reinsurance. For “Fire and Natural Disasters” insurance, active reinsurance is divided into “Property” and “Technical risks”.

A reserve for incurred but not reported losses for insurances "Disease", "Railway vehicles", "Guarantees insurance ", “Credit and leasing”, "Legal expenses" and “Financial losses” is not provided, because the use of chain-ladder method for calculating the reserve for incurred but unclaimed damages at "Guarantees insurance", “Credit and leasing” and “Financial losses” the achieved result for a reserve is 0, and insurance "Disease", "Railway vehicles" and "Legal expenses" has no premium income realized.

Basis of calculation - Statistics on brought up claims in the information system INSIS for the period 2007-2017 as well as statistical information on the number and amount of pending claims at the end of each year in the period 2007-2017.

The reinsurer portion in reserve for incurred but not reported claims is calculated according to the reinsurance contracts during the year of occurrence of the damage - for the quota agreements this is the percentage of assigning, and the presence of optional and excess-loss contracts of reinsurance in reserve unclaimed damages calculated in proportion to the share of the reinsurer in the sum of paid and pending amounts claimed damages.

For MTPL Insurance where there is a signed contract and quota finite contract 50/50, the reinsurers' share is calculated by first estimated share-based excess loss coverage, then the remainder is supplied by 25% quota coverage for 2016 and 2017 per occurrence and a 50/50 ratio for the entire portfolio according to the finite contract. In the event of a limitation on damages or ceded reserves, the restrictions in the reinsurance contract apply.

24.1.2.3. Settlement expenses reserve

Calculation method used is claim to claim. For the damages resulting in court claims, where there are no effective decisions on insurances with sufficient volume of court damages, correction coefficients shall be applied in accordance with Art. Art. 90, para. 12 of Ordinance No. 53.

Calculation basis is preliminary estimation of the liquidation costs for damages. The calculations are based on data entered in the information system - INSIS. The data in the system are populated by the liquidation units of the company and the Legal Division for litigation, each loss going through various stages of liquidation and the respective values of the assessment of the liquidation costs payable to third parties are introduced in due time by the responsible employees. For court damages, court fees and lawyers' fees are introduced.

The part of the reinsurers in the reserve is calculated in proportion to the part of the reinsurer in the reserve for claims incurred and reported.

24.1.3. Reserve for bonuses and discounts

The reserve for bonuses and discounts amounting to BGN 2,251 thousand (2016: BGN 2,199 thousand) is formed for all contracts where the return of a premium is provided for a positive result after their expiration or a final premium clearing on the basis of realized risks during the life of the insurance (eg planned and realized number of flight hours in the case of aviation insurance).

The following method is applied:

For all active insurances with such clauses, the premium earned on them is multiplied by an average reimbursement factor calculated on the basis of all the contracts concluded in recent years.

For all expired contracts with a participation clause, an amount is given as an estimate by the respective directorate serving these contracts or the allocated amount is received as a multiple of the accrued contract amount and the average return on the premium used to calculate the reserve for active contracts.

The basis for calculation is for each policy individually, according to a list drawn up by the relevant insurance directorates.

The part of the reinsurers in the bonus and discount reserve is calculated in proportion to the reinsurers' ceded premium in the current year.

For insurances, in which the Group provides reinsurance and has statistics on damages of a minimum of three years, the reserve for incurred but not reported damages is calculated separately for direct insurance and reinsurance.

24.1.4. Reserves in accordance with Ordinance № 27, art 8a and art. 11a

In 2017 due to a change in insurance legislation, the statutory requirement to set aside an additional reserve for presented, but not paid claims in accordance with art. 8a from Regulation No 27 and art. 11a from Regulation No 27 “Civil responsibility of motorists" is removed. (2016: BGN 1 447 thousand).

In 2017 due to a change in insurance legislation, the statutory requirement to set aside an additional reserve for presented, but not paid claims in accordance with art. 8a from Regulation No 27 and art. 11a from Regulation No 27 “Civil responsibility of motorists" is removed. (2016: BGN 10 056 thousand).

24.1.5. Reserve funds

Reserve fund is set aside solely for Credit insurance as at 31.12.2017 it is in the amount of BGN 865 thousand. For the other insurances from the portfolio of the Group, a Reserve fund is not allocated. The total amount of the Reserve fund of the Group amounts to BGN 865 thousand (2016: BGN 865 thousand).

24.1.6. Mathematical reserve

The mathematical reserve as of 31 December 2017 for individual actual savings policies is set aside by applying the prospective method in accordance with art. 13 of Regulation № 27. The Zillmer adjustment is applied, representing the present value of the unpaid acquisition costs (art. 13, par. 8 of regulation № 27), is enclosed. The mathematical reserve is at the amount of BGN 802 thousand (2016: BGN 1 992 thousand).

24.1.7. Unexpired risk reserve

The reserve for unexpired risks is formed when the expectations for the risk and expense of current policies at the end of the reporting period exceed the amount of the assigned premium reserve.

According to Section II, letter “A’’, point (10.1) of Annex № 1 of the Insurance Code when the sum of the expected final loss and the operational costs of the insurance class for the respective signature year exceed the earned premium, the Group reserves an unexpired risk reserve equal to the difference between the expected final loss and the operating expenses on the one side and the assigned unearned – premium reserve, on the other side

As of 31.12.2017 under “Motor Third Party liability" according to the methodology described above, the Group has calculated sufficiency coefficient 25.44% and has allocated a unexpired risk reserve amounting to BGN 6 419 thousand.

In the case of insurances other than those under Section II, letter “A”, point (10.1) of Appendix № 1 of the Insurance code, the Group creates a reserve for unexpired risk or as a difference between the forecast of expected final loss for the claims and expenses under the last signing year and calculated unearned – premium reserve or according to Annex № 7 of Ordinance № 53 when for the last three years, including the current one, the gross technical result according to Annex № 6 of Ordinance № 53 is negative. The premium deficiency coefficient is calculated at the end of each year and applies both to the end of the respective year and to the third quarter of the next year. As at 31 December 2017 insurances “Property Damage” and “Assistance” ended with a negative result under Appendix № 3 of Ordinance № 27 for 2015 and 2016 and with a negative result under Appendix № 6 of Ordinance № 53 for 2017. There, a reserve for unexpired risk insurance was required to be set aside. The se reserve is calculated according to Appendix № 7 of Ordinance № 53. Failure ratios are 250 % for Property Damage Insurance and 10 % for Travel assistance. For the Property Damage insurance there is a reserve for unexpired risks amounting to BGN 47 thousand and for the Travel Assistance insurance the reserve is in the amount of BGN 72 thousand. The total amount of a reserve for unexpired risks amounting to BGN 6 537 thousand.

The part of reinsurers in the unexpired risk reserve is calculated in proportion to the share of the reinsurer in the unearned – premium.

24.2. Pension fund reserves

	2017 BGN‘000	2016 BGN‘000
Reserves for guaranteeing minimal yield on UPF	13 929	11 564
Reserves for guaranteeing minimal yield on PPF	1 620	1 384
Life pension reserve UPF	132	98
Life pension reserve DPF	4	4
	15 685	**13 050**

Reserves of pension funds are set aside in the course of the Group’s pension insurance activity performed by POAD CCB - Sila and the pension funds under its management.

25. Financial liabilities

		Current		Non-current	
		2017 BGN‘000	**2016 BGN‘000**	**2017 BGN‘000**	**2016 BGN‘000**
Financial liabilities measured at fair value					
Derivatives, held for sale	25.6	-	209	3 396	-
Financial liabilities measured at amortized cost:					
Liabilities due to depositors	25.1	3 980 628	3 633 088	1 072 313	998 430
Dividend payables	25.2	-	6 506	-	-
Bonds and debenture loan	25.3	12 558	2 895	29 792	34 587
Bank loans	25.4	61 119	67 239	120 332	83 278
Other borrowings and financing	25.5	21 830	27 408	18 848	3 520
Deposits from banks	25.7	7 048	8 359	-	-
Cession liabilities		17 536	18 591	18 018	4 206
Liabilities under repurchase agreements	25.8	15 433	17 409	-	-
Financial liabilities measured at amortized cost		**4 116 152**	**3 781 704**	**1 262 699**	**1 124 021**

25.1. Liabilities due to depositors

Analysis by term and type of currency:	2017 BGN'000	2016 BGN'000
On-demand deposits		
in BGN	1 095 702	859 988
in foreign currency	232 192	198 787
	1 327 894	1 058 775
Term deposits		
in BGN	1 247 268	1 200 103
In foreign currency	1 037 232	1 027 929
	2 284 500	2 228 032
Savings accounts		
in BGN	978 826	903 673
in foreign currency	443 826	431 666
	1 422 652	1 335 339
Other deposits		
in BGN	14 653	8 513
in foreign currency	3 242	859
	17 895	9 372
Total liabilities to depositors	**5 052 941**	**4 631 518**

Analysis by client and type of currency:	2017 BGN'000	2016 BGN'000
Individual deposits		
in BGN	2 285 615	2 125 862
in foreign currency	1 449 010	1 373 184
	3 734 625	3 499 046
Legal entities deposits		
in BGN	1 029 880	833 515
in foreign currency	264 262	282 685
	1 294 142	1 116 200
Deposits of other institutions		
in BGN	19 521	13 381
in foreign currency	4 653	2 891
	24 174	16 272
Total liabilities due to depositors	**5 052 941**	**4 631 518**

25.2. Dividend payables

As at 31 December dividend liabilities for the preferred shares are as follows:

	Current		Non-current	
	2017 BGN'000	2016 BGN'000	2017 BGN'000	2016 BGN'000
Dividend payables	-	6 506	-	-
	-	**6 506**	**-**	**-**

Dividends payables of the Group arose as a result of the issue of mandatory convertible preferred shares in 2009 with a guaranteed fixed annual dividend of 9%. On 15 June 2016, all preferred shares of the parent company at that date were mandatory converted into ordinary shares, under the terms of the prospectus for the issue. In 2017, Chimimport AD distributed to its shareholders, holders of preferred shares, a guaranteed dividend amounting to BGN 6,506 thousand or BGN 0.0921 per one preferred share. In 2016 Chimimport AD distributed to its shareholders, holders of preferred shares, guaranteed dividend in the amount of BGN 17 736 thousand or BGN 0.1998 per a privileged share.

25.3. Debenture loan

Debenture loans received by the Group can be presented as follows:

	Current		Non-current	
	2017 BGN'000	2016 BGN'000	2017 BGN'000	2016 BGN'000
Debenture loans	12 558	2 895	29 792	34 587
	12 558	**2 895**	**29 792**	**34 587**

The carrying amount of the Group's debts on the debenture loans as at 31 December 2017 amounts to BGN 42 350 thousand (2016: BGN 37 482 thousand), calculated using the effective interest rate method.

25.4. Bank loans

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

	Current		Non-Current	
	2017 BGN'000	2016 BGN'000	2017 BGN'000	2016 BGN'000
Bank loans	61 119	67 239	120 332	83 278

25.4.1. Long-term bank loans

	2017 BGN'000	2016 BGN'000
Revolving and investment bank loans	120 332	83 278
	120 332	**83 278**

Investment loans

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

- The Group is party to a contract for an investment bank loan, signed on 30 January 2015 with maturity date on 30 April 2023. The repayment of the loan is made in BGN and is in accordance with an agreed repayment schedule for the whole term of the contract. The annual interest rate on the loan is 3M SOFIBOR plus 4.9%. The loan is secured by investment property with carrying amount as at 31 December 2017 amounting to BGN 35 831 thousand.
- The Group is party to a contract for an investment bank loan, signed on 23 December 2015 with maturity date on 31 December 2025. The repayment of the loan is made in BGN and is in accordance with an agreed repayment schedule for the whole term of the contract. The annual interest rate on the loan is 1M SOFIBOR plus 3%. The loan is secured by contractual mortgage of a hangar, all receivables of the Group arising from lease agreements concluded with Lufthansa Technik Sofia OOD in its capacity of tenant.
- The Group is party to a contract for an investment bank loan, signed on 01 November 2016. The repayment of the loan is made in BGN and is in accordance with an agreed repayment schedule with beginning date on 31 October 2018. The annual interest rate on the loan is 1M SOFIBOR plus 3%. The loan maturity is on 30 September 2028. The loan is secured by all receivables of the Group arising from lease agreements concluded with tenant.

- The Group is party to a contract for an investment bank loan, signed on 20 December 2013. The repayment of the loan is made in BGN and is in accordance with an agreed repayment schedule for the whole term of the contract. The annual interest rate on the loan is 3M SOFIBOR plus 6%. The loan is secured by non-self-propelled dry cargo barge BRP 19003 (owned by the Group) and tangible fixed assets purchased with funds from the respective credit.
- The Group is party to a contract for an investment bank loan, signed on 21 June 2013, maturing on 22 May 2023. The interest on the loan is at the rate of 3-month SOFIBOR + 3%, but not less than 6.5%. The loan is secured by real estate mortgage, pledge of fixed assets by the Law on Pledges.
- The Group is party to a contract for an investment loan, signed on 04 December 2015 for the purchase of extrusion plant for production of film sleeve for small containers. The annual interest is formed by the sum of the monthly SOFIBOR and a margin 4.8%, but not less than 5.5%. The deadline for the loan repayment is 01 May 2019 according to repayment schedule.

To secure the borrowings the Group has pledged assets from the group of property, plant and equipment.

Revolving loans

- The Group was granted bank loan for working capital with due date on 01 February 2021. The annual interest rate on the contract is 4.2 % on the used portion of the loan. The loan is secured by a contract for pledge of making third party lease of "Hangar with lightweight construction (HOK)" and connecting corridor, located in the town. Sofia Slatina, Sofia Airport.

25.4.2. Short-term bank loans

	2017 BGN‘000	2016 BGN‘000
Short-term portion of revolving and investment bank loans	61 119	67 239
	61 119	**67 239**

Investment loans

Liabilities of the Group as at 31 December 2017 comprise the following investment bank loan:

- The Group is party to a contract for an investment bank loan, signed on 16 March 2011, with maturity date on 05 December 2018. The annual interest on the loan is 12M EURIBOR plus 6%. The loan is secured by a real estate mortgage, a pledge of long-term tangible assets under the Law on Special Pledges.

Revolving loans

  - The Group is a counterparty to a bank loan agreement concluded on 05.10.2011 for an amount of BGN 3,000 thousand for one year and the repayment period was extended until 29 September 2018. The loan is secured by real estate. The annual interest rate on the loan is 8.5%, based on a one-month SOFIBOR plus a 4% surcharge, and the interest rate cannot be lower than 8.5% and higher than 10%.
- The Group was granted a bank loan to provide working capital with maturity date on 31 August 2018 in the amount of BGN 750 thousand. The interest rate is 4.20%. The loan is secured by pledged receivables on current accounts.
- The Group was granted a bank loan to provide working capital with maturity date on 28 June 2018 in the amount of BGN 329 thousand. The annual interest rate is formed by sum of basis interest rate and allowance for risk. At the date of the renegotiation of the loan, the annual interest rate is 4.2%. The loan is secured by pledge of goods with carrying amount as at 31 December 2017 in the amount of BGN 330 thousand.
- The Group was granted a bank loan to provide working capital with maturity date on 31 December 2018. The outstanding principal is in the amount of BGN 6 275 thousand and

annual interest rate 5.5%. The loan is secured by pledge of receivables under public procurement contracts to provide airline tickets.

- The Group was granted a revolving bank credit, signed on 28 January 2008 with maturity date on 25 September 2018. The annual interest rate is 1M SOFIBOR plus 6%.
- The Group was granted a revolving bank credit, signed on 21 June 2013 with maturity date on 22 May 2018. The annual interest rate is 3M SOFIBOR plus 3%, but not less than 6%.
- The Group was granted a revolving bank credit, signed on 13 December 2013 with maturity date on 31 March 2018. The annual interest rate is 1W SOFIBOR plus 3%.

25.5. Other borrowings

		Current			Non-current	
		2017 BGN'000	**2016 BGN'000**		**2017 BGN'000**	**2016 BGN'000**
Other borrowings	25.5.2	21 830	27 408	25.5.1	18 848	3 520

25.5.1. Other long-term borrowings and financing

	2017 BGN'000	**2016 BGN'000**
Long term borrowings	17 573	2 245
Financing from State Agricultural Fund	1 275	1 275
	18 848	**3 520**

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

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

25.5.2. Other short-term borrowings

	2017 BGN'000	**2016 BGN'000**
Current borrowings	19 736	27 161
Operational program financing	2 094	247
	21 830	**27 408**

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

25.6. Derivatives, held-for-trading

As at 31 December 2017 derivatives, held-for-trading, amounting to BGN 3 396 thousand, (2016: BGN 209 thousand) are presented at fair value and include purchase and sales of currency, securities, forward contracts, and currency swaps on the open market.

25.7. Deposits from Banks

	Current	
	2017 BGN'000	**2016 BGN'000**
On-Demand deposits in local banks		
-in Bulgarian leva	632	325
-in foreign currency	3 215	4 812
Demand deposits from foreign banks in foreign currency	749	1 224
Term deposits from Bulgarian banks in BGN	409	325
Term deposits from foreign banks in foreign currency	2 043	1 672
	7 048	**8 359**

25.8. Payables under sale-purchase agreements of securities

As at 31 December 2017, the Group has entered into agreements with a repurchase clause with Bulgarian companies totalling BGN 15 433 thousand (2016: BGN 17 409 thousand), including accrued liabilities under Interest on them. The maturity of these agreements is until the end of 2018.

26. Liabilities to insured individuals

	2017 BGN'000	**2016 BGN'000**
Attracted funds in a voluntary pension fund	83 769	104 922
Attracted funds in a professional pension fund	115 823	75 760
Attracted funds in a universal pension fund	995 963	877 080
	1 195 555	**1 057 762**

The net assets value of the funds, managed by the subsidiary POAD CCB - Sila AD as at 31 December 2017 amounts to BGN 1 195 555 thousand. The increase at the amount of BGN 137 793, compared to the liabilities as at 31 December 2016, is a result of proceeds from positive return on investment of the insured individuals, realized in 2017, proceeds from social security contributions and a reduction of the amounts paid under insurance contracts.

The change in the net assets available for income is a result of:

	2017 BGN'000	**2016 BGN'000**
Beginning of the period	**1 057 762**	**940 121**
Received pension contributions	130 369	123 855
Amounts received from pension funds, managed by other Pension Insurance Companies	40 352	30 051
Funds of persons who have resumed their insurance in UPF under the procedure of Art. 124a of CSR	83	17
Recovered amounts from National Social Security Institute	1	17
Total increase of pension contributions	**170 805**	**153 940**
Positive/ (negative) income from investment of funds	45 204	51 047
Result from investment of funds	**45 204**	**51 047**
Paid off pensions	(119)	(128)
One-time paid pensions to insured individuals	(4 067)	(3 606)
Funds for disbursement of funds to heirs of insured individuals	(1 705)	(1 665)
Amounts paid to the National Revenue Agency	(2 895)	(2 453)

	2017 BGN‘000	2016 BGN‘000
Amounts paid under social security contracts	**(8 786)**	**(7 852)**
Amounts, paid to insured individuals, transferred to other pension funds	(49 566)	(47 946)
Amounts, paid to individuals that have changed their insurance under Article 46 of the SIC	(5 045)	(17 360)
Transferred taxes	(95)	(101)
Amounts paid to state budget	-	(24)
Transferred amount to pension reserve	(34)	(45)
Entrance fee	(10)	(12)
Service fee	(5)	(181)
9% yield fee	(5 415)	(330)
Service fee (2017: 4.25% ; 2016: 4.5%)	-	(5 263)
Investment fee (2017: 0.85% ;2016: 0.9%)	(9 255)	(8 221)
Withdrawal fee	(5)	(11)
End of the period	**1 195 555**	**1 057 762**

The net assets available for income are distributed as follows:

	2017 BGN‘000	2016 BGN‘000
Individual accounts	1 194 409	1 056 650
Reserve for minimal return	1 146	1 112
Net assets available for income	**1 195 555**	**1 057 762**

27. Trade payables

	Current		Non-current	
	2017 BGN‘000	2016 BGN‘000	2017 BGN‘000	2016 BGN‘000
Trade payables	97 372	115 966	47 599	36 490

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

28. Insurance and reinsurance payables

	2017 BGN‘000	2016 BGN‘000
Insurance liabilities	10 252	9 037
Reinsurance liabilities	14 546	16 654
Payables to Guarantee fund	617	28
	25 415	**25 719**

29. Employee compensation

29.1. Employee benefits expenses

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

	2017 BGN‘000	2016 BGN‘000
Salaries expense	(97 068)	(94 265)
Social security costs	(16 602)	(16 191)
Employee benefits expense	**(113 670)**	**(110 456)**

29.2. Pension and other employee obligations

The liabilities for pension and other employee obligations recognized in the consolidated statement of financial position consist of the following amounts:

	2017 BGN'000	2016 BGN'000
Non-current:		
Pension provisions	3 651	2 766
Non-current pension and other employee obligations	**3 651**	**2 766**
Current:		
Employee benefits obligations	10 791	9 173
Payables to social security institutions	2 874	2 541
Pension provisions	895	1 393
Current pension and other employee obligations	**14 506**	**13 107**

The current portion of these liabilities represents the Group's obligations to its current and former employees that are expected to be settled during 2018.

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

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

	2017 BGN'000	2016 BGN'000
Pension provisions, beginning of period	4 159	3 323
Expenses for current service	791	1 255
Interest expenses	68	77
Adjustments - actuarial losses from changes in demographic assumptions and financial assumptions	10	7
Benefits paid	(482)	(503)
Pension provisions, end of period	**4 546**	**4 159**

30. Tax liabilities

Tax liabilities include:

	2017 BGN'000	2016 BGN'000
Corporate income tax	1 961	5 921
VAT payables	1 035	3 658
Excise duty on imports	219	278
Other tax liabilities	3 274	2 214
	6 489	**12 071**

31. Other liabilities

Other liabilities can be presented as follows:

		Current			Non-current	
		2017 BGN'000	2016 BGN'000		2017 BGN'000	2016 BGN'000
Other liabilities	31.2	45 160	69 246	31.1	4 476	1 856

31.1. Other non-current liabilities

	2017 BGN'000	2016 BGN'000
Funding for acquisition of non-current assets	1 541	1 817
Funding for European transport systems	19	19
	2 916	20
	4 476	**1 856**

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

The program includes the purchase of:

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

As at 31 December 2017 the Group is a beneficiary under the Resolution for granting financial aid, dated 10 June 2009, by the Commission of the European Community for projects of common interest "Studies related to the port expansion project for Lesport as part of Port Varna regarding implementation of European standards in Bulgaria" 2008-BG-90300-S in the field of the trans-European transport networks (INEA).

31.2. Other current liabilities

	2017 BGN'000	2016 BGN'000
Air tickets sold	14 920	18 022
Advances from customers	8 962	9 417
Guarantees	2 340	2 060
Liabilities under concessionary remunerations	-	36
Penalties	1 672	1 284
Other	17 266	38 427
	45 160	**69 246**

Liabilities for airfare tickets sold amounting to BGN 14 920 thousand (2016: BGN 18 022 thousand) represent the tickets sales, which as at the date of the financial statements have not factually occurred i.e. conducting the carriage.

32. Revenue from non-financial activities

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

	2017 BGN'000	2016 BGN'000
Income from sale of plane tickets	229 362	245 910
Income from sale of finished goods	54 075	51 731
Income from services rendered	54 429	67 774
Income from sale of trading goods	40 704	65 025
Other	54 469	45 373
	433 039	**475 813**

33. Expenses for non-financial activities

	2017 BGN'000	2016 BGN'000
Hired service expense	(186 435)	(201 822)
Cost of materials	(96 961)	(95 578)
Cost of goods sold	(37 966)	(61 322)
Employee benefits expense	(35 389)	(36 034)
Depreciation, amortization and impairment of non-financial assets	(17 657)	(21 737)
Change in finished goods and work in progress	472	1 081
Other expenses	(24 787)	(26 706)
	(398 723)	**(442 118)**

34. Loss/ Gain on sale of non-current assets

	2017 BGN'000	2016 BGN'000
Proceeds from sale of non-current assets	2 562	41 089
Carrying amount of non-current assets sold	(8 695)	(34 022)
	(6 133)	**7 067**

35. Insurance income

		2017 BGN'000	2016 BGN'000
Insurance premium income	35.1	195 732	181 024
Income from reinsurance operations		142 443	136 309
Regression income		10 226	9 937
Income from release of insurance reserves		2 872	-
Other insurance income		746	3 996
		352 019	**331 266**

35.1. Insurance premium income

	2017 BGN'000	2017 %	2016 BGN'000	2016 %
Casco	110 763	56.59%	104 621	57.79%
Motor third party liability	47 961	24.50%	42 223	23.32%
Fire and natural disasters	14 794	7.56%	11 166	6.17%
Travel Assistance	4 388	2.24%	4 225	2.33%
Accidents	3 741	1.91%	3 701	2.04%
Casco of aircrafts	1 366	0.70%	2 822	1.56%
General third party liability	2 609	1.33%	2 615	1.44%
Property damage	31	0.02%	1 961	1.08%
Life and annuity	597	0.31%	1 724	0.95%
Additional insurance	2 133	1.09%	1 702	0.94%
Casco of vessels	1 178	0.60%	1 281	0.71%
TPL related to aircraft	163	0.04%	995	0.55%
Freight transport	671	0.34%	804	0.44%
Other financial losses	4 552	2.33%	474	0.26%
Loans and leases	443	0.23%	368	0.21%
Health services	264	0.13%	266	0.16%
TPL related to vessels	74	0.04%	57	0.04%
Insurance guarantees	4	0.00%	19	0.01%
	195 732	**100.00%**	**181 024**	**100.00%**

36. Insurance expense

		2017 BGN'000	2016 BGN'000
Net change in insurance reserves set aside		(3 082)	(1 354)
Reinsurance expenses		(150 220)	(131 939)
Indemnities paid	36.1	(103 971)	(108 745)
Acquisition costs		(43 181)	(38 754)
Liquidation of damages		(5 652)	(5 231)
Other insurance expenses		(12 369)	(13 532)
		(318 457)	**(299 555)**

36.1. Indemnities paid

	2017 Indemnities paid BGN'000	2017 Share %	2016 Indemnities paid BGN'000	2016 Share %
Casco	(67 960)	65.36%	(69 500)	63.91%
Motor third party liability	(26 899)	25.87%	(30 118)	27.70%
Fire and natural disaster	(3 475)	3.34%	(2 900)	2.67%
Life insurance	(640)	0.62%	(1 579)	1.45%
Travel assistance	(1 610)	1.55%	(1 438)	1.32%
Accident	(2 143)	2.06%	(1 267)	1.17%
Property damage	(10)	0.01%	(1 016)	0.93%
Additional insurance	(245)	0.24%	(299)	0.27%
Casco of vessels	(259)	0.25%	(182)	0.17%
Health services	(184)	0.18%	(145)	0.13%
Freight transport	(123)	0.12%	(129)	0.12%
General Third Party Liability	(208)	0.20%	(77)	0.07%
Casco of aircrafts	(153)	0.15%	(76)	0.07%
GL connected with craft	-	-	(15)	0.01%
Loans and leases	-	-	(4)	0.01%
	(103 971)	**100.00%**	**(108 745)**	**100.00%**

37. Interest income

	2017 BGN'000	2016 BGN'000
Interest income by types of sources:		
Legal entities	107 584	131 067
Government securities	40 270	39 545
Banks	4 516	3 952
Individuals	45 394	32 725
Other	1 704	1 554
	199 468	**208 843**

38. Interest expenses

	2017 BGN'000	2016 BGN'000
Interest expense due to depositors:		
Legal entities	(10 743)	(15 525)
Individuals	(18 247)	(29 891)
Banks	(7 143)	(7 148)
Other	(3 056)	(1 572)
	(39 189)	**(54 136)**

39. Result from transactions with financial instruments, net

	2017 BGN'000	2016 BGN'000
Gains from transactions with securities and investments	513 338	504 696
Dividend income	14 251	2 912
Other	1 086	-
	528 675	**507 608**
Losses from transactions with securities and investments	(427 941)	(440 520)
Other	(13)	-
	(427 954)	**(440 520)**
	100 721	**67 088**

40. Administrative expenses

	2017 BGN'000	2016 BGN'000
Employee benefits expense	(78 281)	(74 422)
Hired services expense	(61 432)	(67 240)
Depreciation, amortization and impairment of non-financial assets	(13 586)	(14 077)
Cost of materials	(5 838)	(6 230)
Other	(77 974)	(79 295)
	(237 111)	**(241 264)**

Fees for independent financial audit of the financial statements of the companies within the Group for 2017 performed by registered auditors amounted to BGN 1 636 thousand. During the year tax consultations or other non-audit services were performed by registered auditors, for the total amount of BGN 466 thousand. The present disclosure is in compliance with the requirements of Art. 30 of the Accountancy Act.

41. Other financial income, net

		2017 BGN'000	2016 BGN'000
Revenue from fees and commissions, net	41.1, 41.2	59 342	58 827
Net result from foreign exchange differences		(19 599)	13 061
Other finance expenses		(3 292)	(6 094)
		36 451	**65 794**

41.1. Revenue from fees and commissions

	2017 BGN'000	2016 BGN'000
Bank transfers in Bulgaria and abroad	23 531	24 146
Maintenance fee on deposit accounts	15 116	14 879
Servicing fee for loans	3 381	3 038
Fee for commitments and contingencies	1 030	1 548
Other fees and commissions income, different from banks	14 920	14 019
Other income	12 557	11 023
Total revenue from fees and commissions	**70 535**	**68 653**

41.2. Expenses from fees and commissions

	2017 BGN'000	2016 BGN'000
Bank transfers in Bulgaria and abroad	(6 881)	(7 739)
Account maintenance fees	(527)	(404)
Release of precious parcels	(335)	(319)
Transactions with securities	(154)	(70)
Other fees and commissions expenses, different from banks	(2 217)	(180)
Other expenses	(1 079)	(1 114)
Total fees and commissions expenses	**(11 193)**	**(9 826)**

42. Income tax income/expenses

The relationship between the expected tax expense based on the applicable tax rate of 10 % (2016: 10%) and the reported tax expense in profit or loss can be reconciled as follows:

	2017 BGN'000	2016 BGN'000
Profit before tax	84 895	74 802
Tax rate	10%	10%
Expected tax expense	**(8 490)**	**(7 480)**
Net effect of the decrease of the financial result	2 833	1 078
Current tax expense	**(5 657)**	**(6 402)**
Deferred tax income/(expense), resulting from:		
- origination and reversal of temporary differences and changes in tax rates	6 428	(2 516)
Tax income/(expenses)	**771**	**(8 918)**
Deferred tax expense recognized in other comprehensive income	(345)	(1 129)

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

43. Earnings per share

Basic earnings per share have been calculated using the profit attributed to shareholders of the parent company as the numerator.

The weighted average number of outstanding shares used for basic earnings per share as well as the net profit, less the dividend expense, attributable to shareholders, is as follows:

	31 December 2017	31 December 2016
Profit attributable to the shareholders of the Group (BGN)	68 370 000	52 008 000
Weighted average number of outstanding shares	227 101 090	189 239 232
Basic earnings per share (BGN per share)	**0.30**	**0.27**

The weighted average number of shares /ordinary and preferred/, used in calculating the diluted basic earnings per share, as well as the net profit, adjusted with dividend expense, attributable to shareholders, is as follows:

	31 December 2017	31 December 2016
Net profit, attributable to shareholders of the Group, adjusted with dividend expense (BGN)	-	53 933 269
Weighted average number of shares	-	226 010 630
Diluted earnings per share (BGN per share)	**-**	**0.24**

44. Related party transactions

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

44.1. Transactions with owners

	2017 BGN'000	2016 BGN'000
Sale of goods and services, interest income and other income		
- interest income	752	2 296
- sale of services	10	-
Purchase of services, interest expense and other expenses		
- purchase of services	(193)	(300)
- interest expense	(1)	(1)

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

Sale of goods and services, interest income and other income	**2017 BGN'000**	**2016 BGN'000**
Sale of production		
- associated companies	614	571
- other related parties under common control	400	408
Sale of finished goods		
- associated companies	102	351
- other related parties under common control	1 214	1 483
Sale of services		
- associated companies	5 205	5 470
- other related parties under common control	2 075	2 140
Interest income		
- joint ventures	450	25
- associated companies	30	33
- other related parties under common control	1 741	2 478

Sale of goods and services, interest income and other income	**2017**	**2016**
	BGN'000	**BGN'000**
Other income		
- associated companies	82	32
- other related parties under common control	92	19

Purchases of services and interest expense	**2017**	**2016**
Purchases of services	**BGN'000**	**BGN'000**
- associated companies	(12,616)	(15 633)
- other related parties under common control	(5 892)	(6 326)
Interest expense		
- associated companies	(6)	(10)
- other related parties under common control	(39)	(42)

44.3. Transaction with key management personnel

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

	2017 **BGN'000**	**2016** **BGN'000**
Short-term employee benefits:		
Salaries, including bonuses	(1 201)	(956)
Social security costs	(20)	(19)
Total short-term benefits	**(1 221)**	**(975)**

45. Related party balances at year end

Non-current	**2017** **BGN'000**	**2016** **BGN'000**
Receivables from:		
- owners	-	3 056
- associates	2 295	2 317
- joint ventures	3 266	40
- other related parties under common control	3 197	3 334
Total non-current receivables from related parties	**8 758**	**8 747**

Current	**2017** **BGN'000**	**2016** **BGN'000**
Receivables from:		
- owners	28 362	37 827
- associates	580	834
- joint ventures	3 446	698
- other related parties under common control	36 532	25 784
Total current receivables from related parties	**68 920**	**65 143**

Non-current	**2017** **BGN'000**	**2016** **BGN'000**
Payables to:		
- owners	-	10
- associates	1 043	2 934
- joint ventures	379	130
- other related parties under common control	2 893	1 419
Total non-current payables to related parties	**4 315**	**4 493**

Current	2017 BGN'000	2016 BGN'000
Payables to:		
- owners	8 894	580
- associates	12 164	13 914
- joint ventures	262	3
- other related parties under common control	16 099	9 453
Total current payables to related parties	**37 419**	**23 950**

46. Contingent assets, contingent liabilities and other commitments

As at 31 December 2017 and 2016 the Group has entered into granting bank loans to customers, which future utilization depends on whether the lessees fulfil certain requirements, including no overdue loans, granting collateral with certain quality and liquidity, etc.

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

	2017 BGN'000	2016 BGN'000
Bank guarantees in: BGN	38 096	41 058
Bank guarantees in: foreign currency	24 170	15 765
Irrevocable commitments	118 176	118 784
Other contingent liabilities	-	134
Total contingent liabilities	**180 442**	**175 741**

The Group is a party to legal disputes in relation to issued acts establishing a public state receivable for airport charges. The group appealed the acts issued.

The Group is a party to bank guarantees issued by two commercial banks amounting to BGN 400 thousand, EUR 96 thousand, as well as a letter of credit worth USD 999 thousand. dollar. Bank guarantees are issued in connection with securing trade obligations of the Company.

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

- a bank guarantee for execution of an Investment Program amounting to BGN 81 thousand issued by Eurobank Bulgaria AD with a term of validity of 31.10.2018;

- a bank guarantee for the good performance of the obligations under the Concession Contract, amounting to BGN 449 thousand issued by Eurobank Bulgaria AD with a term of validity as of 31.10.2019;

Pursuant to a loan agreement with Unicredit Bulbank AD, the Group establishes a primary pledge on agricultural production, on receivables arising from contracts, orders and invoices for realization of agricultural production, as well as on all receivables on all accounts of the Group in The Bank.

On 25 January 2017 DSK Bank EAD issued bank guarantees under concession contracts for oil and gas extraction amounting to BGN 142 thousand - representing the value of the entire concession fee paid by the Group for the concession contracts for Selanovtsi Depos and Iskar Depo Site - west for 2016 incl. VAT) The validity of the guarantees is until 28.02.2018.

The Group has a guarantee issued by Eurobank EFG Bulgaria EAD amounting to BGN 2 600 thousand in favour of the Customs Agency with a term of validity until 5 April 2019.

47. Reconciliation of liabilities arising from financing activities

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

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

	Debenture loan BGN'000	Bank loans BGN'000	Other loans BGN'000	Total BGN'000
1 January 2016	**171 848**	**94 243**	**4 382**	**270 473**
Cash flows:				
Repayment	(14 272)	(19 451)	(44)	(33 767)
Proceeds	10 071	20 639	1 705	32 415
Interest paid	(5 931)	(4 712)	(404)	(11 047)
Non-cash:				
Reclassification	(127 129)	(7 441)	(2 119)	(136 689)
31 December 2016	**34 587**	**83 278**	**3 520**	**121 385**

48. Non-monetary transactions

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

- The Group has offset dividends payable on preferred shares against receivables from the shareholders at the amount of BGN 7 390 thousand in 2017 (2016 BGN 21 094 thousand).
- The Group has sold an aircraft at the amount of BGN 2 400 thousand, the receivables being settled by offsetting trade payables from 2016.
- The Group has acquired a non-current asset - a company sign under a contract at the amount of BGN 8 280 thousand, of which BGN 7 853 is not presented in the cash flow statement.
- The Group has settled liabilities at the amount of BGN 8 692 thousand, representing principal under a contract for financial support.
- The Group has offset liabilities for the acquisition of assets against trade receivables at the amount of BGN 2 051 thousand.

49. Categories of financial assets and liabilities

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

Financial assets	Note	2017 BGN'000	2016 BGN'000
Financial assets held to maturity:	16.3, 13.2		
Bonds		**36 469**	**30 188**
Financial assets available for sale:	16.4, 13.4		
Securities and debentures		**664 195**	**674 083**
Financial assets held for trading (carried at fair value through profit or loss):	16.2, 13.3		
Non-derivative financial assets securities and debentures		1 429 298	1 345 724
Derivative		1 025	21
		1 430 323	**1 345 745**
Loans and receivables			
Trade and other receivables	17, 20	190 364	203 816
Receivables on loans provided	13.1, 16.1	2 900 649	2 825 968
Receivables from related parties	46	77 678	73 890
Cash and cash equivalents	21	2 204 904	1 767 126
		5 373 595	**4 870 800**
		7 504 582	**6 920 816**

Financial liabilities	Note	2017 BGN'000	2016 BGN'000
Financial liabilities, measured at amortised cost:			
liabilities to depositors	25.1	5 052 941	4 631 518
borrowings	25.3, 25.4, 25.5	264 479	218 927
dividend payables	25.2	-	6 506
bank deposits	25.7	7 048	8 359
cession payables		35 554	22 797
obligations under repo agreements		15 433	17 409
finance lease obligations	9.1	3 939	4 937
trade and other payables	27, 31	142 971	167 993
related parties payables	46	41 734	28 443
		5 564 099	**5 106 889**
Derivatives designated as hedging instruments in cash flow (at fair value):			
Derivatives	25.6	**3 396**	**209**
		5 567 495	**5 107 098**

See note 4.19 about information related to the accounting policy for each category financial instruments. Methods, used for assessment of fair value are presented in note 51. Description of the risk management objectives and policies of the Group related to the financial instruments is presented in note 50.

.

50. Financial instruments risk

Risk management objectives and policies

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

The Group is exposed to different types of risk with regards to its financial instruments. For further information regarding the categories of financial assets and liabilities see note 49. The most significant financial risks to which the Group is exposed to are described below.

50.1. Insurance risk

The insurance risk is the risk of occurrence of insured event, where the damage cost and the indemnity owed exceeds the set-aside insurance reserves.

This depends on the frequency of the occurring insurance events, the type of the insurance portfolio and the size of the indemnities. The diversity of the insurance portfolio and the probability theory are of major importance for the mitigation of this risk.

The Group is exposed mainly to the following risks:

- Risk, related to the profitability of the investments – risk of loss when the profitability of the investment is different from what is expected.
- Risk, related to the expenses – risk of loss when the expenses are different from what is expected;

The Group is aiming at relatively steady allocation of the insurance contracts. It also seeks to analyse the different types of insurance risks, which is included in the general conditions. By means of variable methods of assessment and control, the director of Internal Control department is making regularly assessments of the risks and scrutinizes the accumulation of insured amounts by groups of clients and regions. The risk management is performed by the Internal Control department in collaboration with actuaries and the management of the Group.

The main factors on which depends the Group's insurance business's positive financial performance is the loss rate, the cost quota and the investment income.

50.1.1. Reinsurance strategy

The Group reinsures part of its risks with the purpose of controlling its exposition to losses and protection of its capital resources. All contracts for facultative reinsurance are preliminary approved by the management. Before signing a reinsurance contract, the Group analyses the credit rating of the respective reinsurer. Only the ones with high credit rating are being chosen. The Group periodically analyses the current financial position of the reinsurers, which the Group has reinsurance engagements with.

The Group enters reinsurance engagements with different reinsurers with high credit ratings, to control the exposure to losses caused by the insurance event.

50.1.2. Damage settlement procedures

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

Types of insurances	**2017 Damages quota, gross**	**2017 Damages, quota, net**	**2016 Damages quota, gross**	**2016 Damages quota, net**
Accident insurance	68%	66%	3%	4%
Including obligatory accident insurance of the passengers in the public transport	79%	87%	2%	2%
Casco	42%	33%	54%	57%
Casco of aircrafts	33%	285%	2%	-18%
Casco of vessels	-15%	-24%	20%	27%
Cargo insurance during transportation	11%	13%	45%	45%
Fire and natural calamities insurance	38%	37%	41%	20%
Property damage insurance	27%	27%	55%	60%
Insurance associated with the ownership and usage of motor vehicles, including:	73%	93%	118%	124%
Third-party vehicle insurance	74%	92%	120%	127%
"Green Card" insurance	58%	215%	95%	80%
Third-party boarder insurance	-366%	-12%	111%	29%
Third-party carrier insurance	66%	68%	-8%	-8%
Third-party aviation insurance	18%	331%	2%	65%
Third party vessels insurance	-109%	142%	277%	167%
General third-party insurance	37%	14%	-20%	-51%
Credit insurance	-53%	-53%	1%	1%
Insurance against financial losses	-4%	-4%	-2%	-2%
Travel assistance	19%	19%	51%	51%
Total:	**48%**	**41%**	**65%**	**60%**

Comparing annual net damages quota - for 2017 and 2016 it appears that there is a significant increase in damages mainly due to "Insurance of civil liability of owners of vehicles".

The following table shows the paid indemnities, classified by type and group of insurances:

Types of insurances	**BGN**	**Number**	**Average indemnity 2017**	**Average indemnity 2016**	**Average indemnity 2015**	**Average indemnity 2014**
Accident insurance	2 142 512	2 473	866	619	813	516
Casco	68 682 257	89 033	771	786	890	958
Casco of aircrafts	152 676	7	21 811	19 033	26 013	184 805
Casco of vessels	122 613	15	8 174	9 877	10 367	6 173
Cargo insurance during transportation	259 401	36	7 206	3 135	7 332	2 602
Fire and natural calamities insurance	3 475 163	2 197	1 582	1 564	1 362	1 509
Property damage insurance	9 840	10	984	14 520	20 745	18 840
Insurance associated with the ownership and usage of motor vehicles	26 899 321	8 538	3 151	3 124	2 240	2 080
Third-party aviation insurance	62 023	7	8 860	7 368	787	977
Third party vessels insurance	-	-	-	324	2 175	-
General third-party insurance	207 732	32	6 492	1 972	11 223	41 920
Loans and leasing	-	-	-	3 665	4 308	10 956
Miscellaneous financial losses	-	-	-	-	11 388	6 212
Travel assistance	1 609 876	2 995	538	610	722	725
Total:	**103 623 414**	**105 343**	**984**	**1 020**	**1 044**	**1 140**

50.2. Foreign currency risk

The foreign currency risk is a potential cause for losses for the Group when the foreign currency rates fluctuate.

<u>Group's policy regarding other than banking activities</u>

Most of the Group's transactions are carried out in Bulgarian leva. Exposures to currency exchange rates arise from the Group's overseas transactions, mainly denominated in US-Dollars. The Group's long-term commercial liabilities and financial lease liabilities carried out in US-Dollars are related to purchases of aircrafts. These liabilities are recorded at their amortized cost. The Group has short- and long-term loans in US-Dollars. These receivables are classified as loans and receivables.

Group's foreign transactions, denominated in Euro, do not expose the Group to foreign currency risk due to the fact that under the conditions of the Currency Board Act, the Bulgarian Lev (BGN) is fixed to the Euro.

In order for the foreign currency risk to be decreased, the non-BGN cash flows are monitored by the Group. Generally, the Group has different procedures for risk management for the short-term (due within 6 months) and long-term non-BGN cash flows.

<u>Group's policies regarding the banking activities</u>

In the Republic of Bulgaria the rate of the Bulgarian Lev (BGN) to the Euro (EUR) is fixed under the Currency Board. The long position in Euro of the Bulgarian bank does not carry any risk for the Group.

The foreign currency positions include mainly assets and liabilities, denominated in Macedonian dinars and Russian rubles.

The currency structure of the financial assets and liabilities at their carrying amount as at 31 December 2017 is as follows:

	BGN	EURO	USD	Other	Total
FINANCIAL ASSETS					
Provided resources and advances to banks	8 157	43 098	173 686	67 061	292 002
Receivables under repurchase agreements	164 378	32 532	-	-	196 910
Financial asset held-for-trading	68 106	13 158	1	1 056	82 321
Loans and advances to customers, net	1 420 920	783 138	7 274	193 169	2 404 501
Available-for-sale financial assets	170 979	415 124	3 215	6 456	595 774
Held-to-maturity financial assets	-	-	-	34 010	34 010
TOTAL ASSETS	**1 832 540**	**1 287 050**	**184 176**	**301 752**	**3 605 518**
FINANCIAL LIABILITIES					
Deposits from banks	757	4 988	1 035	228	7 008
Bank loans	-	-	-	4 539	4 539
Liabilities to other depositors	3 379 344	1 264 852	225 199	243 738	5 113 133
Other attracted funds	-	-	-	778	778
Issued bonds	-	70 235	-	-	70 235
Provisions for liabilities	-	-	-	49	49
TOTAL LIABILITIES	3 380 101	1 340 075	226 234	249 332	5 195 742
NET POSITION	(1 547 561)	(53 025)	(42 058)	52 420	(1 590 224)

The currency structure of the financial assets and liabilities at their carrying amount as at 31 December 2016 is as follows:

	BGN	EURO	USD	Other	Total
FINANCIAL ASSETS					
Placements with, and advances to banks	17 013	33 896	151 320	54 127	256 356
Receivables under repurchase agreements	149 637	49 621	-	-	199 258
Financial asset held-for-trading	100 352	15 164	43	14	115 573
Loans and advances to customers, net	1 244 255	899 103	12 451	177 160	2 332 969
Available-for-sale financial assets	150 855	506 401	6 933	762	664 951
Held-to-maturity financial assets	-	-	-	30 188	30 188
TOTAL ASSETS	1 662 112	1 504 185	170 747	262 251	3 599 295
FINANCIAL LIABILITIES					
Deposits from banks	485	2 607	4 371	912	8 375
Bank loans	-	-	-	246	246
Liabilities to other depositors	3 014 378	1 221 840	229 334	224 235	4 689 787
Other attracted funds	39	-	-	778	817
Issued bonds	-	70 126	-	-	70 126
Provisions for liabilities	2	831	180	192	1 205
TOTAL LIABILITIES	3 014 904	1 295 404	233 884	226 363	4 770 556
NET POSITION	(1 352 792)	208 781	(63 137)	35 888	(1 171 260)

50.3. Interest rate sensitivity

Group's policy regarding other than banking activities

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. As at 31 December 2016, the Group is exposed to changes in market interest rates through bank borrowings at variable interest rates. All other financial assets and financial liabilities of the Company are at fixed interest rates.

The following table illustrates the sensitivity of the annual net financial result after tax and equity to a reasonably possible change in interest rates on loans with a floating rate based on: 1-week SOFIBOR, amounting to +/- 2.73% (2016: 2.81 %), 1-month SOFIBOR, amounting to +/- 2.77% (2016: 3.82%), 3-month SOFIBOR, amounting to +/- 2.52% (2016: 4.24%) and a floating rate based on 1-month EURIBOR, amounting to +/- 0.10% (2016: 4.95%), 12-month EURIBOR, amounting to +/- 3.19% (2016: 3.34%). These changes are considered to be reasonably possible based on observation of current market conditions. Calculations are based on the change in the average market interest rate and the financial instruments held by the Group at the end of the reporting period that are sensitive to interest rate changes. All other parameters are taken to be constant.

31 December 2017	**Net financial result**		**Equity**	
	Increase of the interest rate	**Decrease of the interest rate**	**Increase of the interest rate**	**Decrease of the interest rate**
1W SOFIBOR	(2)	2	(2)	2
1M SOFIBOR	(24)	24	(24)	24
3M SOFIBOR	(14)	14	(14)	14
1M EURIBOR	-	-	-	-
12M EURIBOR	(4)	4	(4)	4

31 December 2016	**Net financial result**		**Equity**	
	Increase of the interest rate	**Decrease of the interest rate**	**Increase of the interest rate**	**Decrease of the interest rate**
1W SOFIBOR	(4)	4	(4)	4
1M SOFIBOR	(5)	5	(5)	5
3M SOFIBOR	(32)	32	(32)	32
1M EURIBOR	(1)	1	(1)	1
12M EURIBOR	(1)	1	(1)	1

Group's policy regarding banking activities

Regarding the Group's banking activities interest risk is the probability of potential changes of the net interest income or the net interest margin, resulting from changes of the general market interest rates. The Group's interest risk management is aiming at minimizing the risk of a decrease of the net interest income, due to the changes in the interest rates.

For measurement and evaluation the interest rate risk the Group applies the method of the GAP analysis. (GAP/ imbalance analysis). It identifies the sensitivity of the expected revenue and expenses, in relation to the interest rate.

The method of the GAP analysis determines the Group's position, totally and the separate types of financial assets and liabilities, in relation to expected changes of the interest rates and the impact of this change over the net interest income. It facilitates the assets' and the liabilities' management and it is an instrument for providing sufficient and stable net interest profitability.

The Group's imbalance between the interest bearing assets and liabilities as at 31 December 2017 is negative, amounting to BGN 1,738,743 thousand. The GAP coefficient, as an indicator for this imbalance, compared to the total income generating assets of the bank of the Group (interest bearing assets and equity instruments) is minus 48%.

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
INTEREST-BEARING ASSETS						
Placements with, and advances to banks	284 944	-	3 129	3 929	-	292 002
Receivables under repurchase agreements	66 376	45 364	85 170	-	-	196 910
Financial assets held for trade	-	-	-	13 260	343	13 603
Loans and advances to customers, net	92 489	78 457	329 525	1 263 284	640 746	2 404 501
Available for sale financial assets	15 697	8 810	21 295	213 137	256 985	515 924
Financial assets held-to-maturity	19 341	4 626	10 043	-	-	34 010
INTEREST-BEARING ASSETS	478 847	137 257	449 162	1 493 610	898 074	3 456 950
INTEREST-BEARING LIABILITIES						
Deposits from banks	7 008	-	-	-	-	7 008
Bank loans	4 361	-	6	172	-	4 539
Liabilities to other depositors	2 495 935	382 916	1 151 563	1 080 106	2 613	5 113 133
Other attracted funds	-	-	-	778	-	778
Bonds Issued	-	-	-	-	70 235	70 235
INTEREST–BEARING LIABILITIES	2 507 304	382 916	1 151 569	1 081 056	72 848	5 195 693
IMBALANCE BETWEEN INTEREST BEARING ASSETS AND LIABILITIES, NET	(2 028 457)	(245 659)	(702 407)	412 554	825 226	(1 738 743)

The Group is exposed to a reduction of the interest income when the interest rates rise, as the Group holds a negative imbalance. The imbalance impact, as at 31 December 2016, over the net interest income, assuming an increase of 2% of the interest rates for one year is a reduction of the net interest income amounting to BGN 2,585 thousand (2016: BGN 2 099 thousand).

The Group's imbalance between the interest bearing assets and liabilities as at 31 December 2016 is negative, amounting to BGN 1 353 477 thousand. The GAP coefficient, as an indicator for this imbalance, compared to the total income generating assets of the bank of the Group (interest bearing assets and equity instruments) is minus 37.42%.

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
INTEREST-BEARING ASSETS						
Placements with, and advances to banks	256 356	-	-	-	-	256 356
Receivables under repurchase agreements	73 275	41 626	84 357	-	-	199 258
Financial assets held-for-trade	1 719	-	1 954	12 266	-	15 939
Loans and advances to customers, net	111 294	132 755	313 798	1 124 173	650 949	2 332 969
Available for sale financial assets	762	5 815	84 381	76 399	413 806	581 163
Financial assets held-to-maturity	14 553	5 699	9 936	-	-	30 188
INTEREST-BEARING ASSETS	457 960	185 895	494 426	1 212 838	1 064 755	3 415 874
INTEREST-BEARING LIABILITIES						
Deposits from banks	8 375	-	-	-	-	8 375
Bank loans	8	-	20	218	-	246
Obligations under repo agreements	2 054 276	410 658	1 147 977	1 075 417	1 459	4 689 787
Liabilities to other depositors	4	21	14	778	-	817
Other attracted funds	-	-	-	-	70 126	70 126
Bonds Issued	2 062 663	410 679	1 148 011	1 076 413	71 585	4 769 351
IMBALANCE BETWEEN INTEREST BEARING ASSETS AND LIABILITIES, NET	(1 604 703)	(224 784)	(653 585)	136 425	993 170	(1 353 477)

50.4. Credit risk sensitivity

Group's policy regarding other than banking activities

Credit risk is the risk that counterparty fails to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits etc. The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date, as summarized below:

	2017 BGN'000	2016 BGN'000
Financial assets – carrying amounts:		
Non-current financial assets	2 606 120	2 452 621
Related parties receivables – non current	8 758	8 747
Current financial assets	2 425 516	2 423 363
Related parties receivables - current	68 920	65 143
Cash and cash equivalents	2 204 904	1 767 126
Trade and other receivables	190 364	203 816
Carrying amount	**7 504 582**	**6 920 816**

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in different industries and geographical areas. Based on historical indicators, the management considers that the trade receivables that are not past due are of good credit quality.

The credit risk related to cash and cash equivalents and financial market funds is considered immaterial as the contracting parties are banks with good reputation and good credit rating.

The carrying amounts presented above represent the maximum exposure to credit risk the Group might experience, regarding these financial instruments.

Group's policy regarding banking activities

The credit risk represents the probability of losses, due to the inability of the counterparty to meet its liabilities in time.

The Group manages its credit risk sensitivity both for the bank and commercial portfolio.

The Group applies individual credit policies for the different business segments.

The Group structures the credit risk as it sets limits for the credit risk as a maximum exposure to one debtor, to a group of related parties, to geographic regions and the different business sectors, bearing common risk. The limits define the risk appetite and risk tolerance for credit risk and the planned allocation of capital, required for its coverage.

In order to reduce the credit risk, in compliance with the internal credit rules, the approach for calculation of capital requirements and the current banking legislation, corresponding securities and guarantees are required.

The cash and bank accounts in the Central bank, amounting to BGN 1,840,004 thousand do not carry any credit risk for the Group, due to their nature and the ability of the Group to dispose of them.

The provided advances and advances to banks with book value BGN 295,720 thousand are mainly deposits in first-class international and Bulgarian financial institutions with maturity up to 7 days. These financial assets bear certain credit risk, whose maximum exposure according to the Group's policy may be 20%, 50% or 100%, depending on the qualitative characteristics of financial institutions. As at 31 December 2017 the lump sum of this risk amounts to BGN 65,133 thousand. As at 31 December 2017 the provisions for coverage of losses from impairments of the provided resourses and advances to banks amount to BGN 3,718 thousand.

The receivables under repurchase agreements, amounting to BGN 196,910 thousand carries credit risk to the Group, which is dependent on the credit risk of the collateral. One part of receivables amounting to BGN 54,933 thousand, does not carry any credit risk to the Group, as they are secured by the Bulgarian government securities. The remaining receivables amounting to BGN 133,766 thousand carry credit risk 100% and receivables amounting to 5,211 thousand carry risk 150 % to the Group, as they are secured by corporate securities.

The held-for-trading financial assets, amounting to BGN 82,321 thousand carry mainly market risk to the Group, which is analysed in the notes, related to the market risk.

The equity instruments held-for-sale, amounting to BGN 80,610 thousand, are shares in financial and non-financial companies as well as shares in mutual funds, that carry credit risk, whose maximum exposure percentage is 100%.

The debentures held-for-sale and issued by the Republic of Bulgaria in the amount of BGN 301,504 thousand do not bear credit risk for the Group due to their guarantee by the Republic of Bulgaria. The debentures available-for-sale and issued by other European countries in the amount of BGN 170,807 thousand expose the Group to credit risk to the issuer.

The debentures available-for-sale and issued by local and foreign companies, amounting to BGN 44,683 thousand, bear credit risk, whose maximum exposure is 100% or BGN 44,683 thousand. As at 31 December 2017, the Group's provision for covering impairment losses on debentures available-for-sale amounting to BGN 1,830 thousand.

The debentures held to maturity and issued by the National Bank of the Republic of Macedonia in the amount of BGN 17,796 thousand and by the Republic of Macedonia in the amount of BGN 16,214 thousand expose the Group to credit risk to the issuer.

Loans and advances to customers with carrying value amounting to BGN 2,523,849 thousand bear credit risk for the Group. For determining the amount of exposure of the Group to this risk, an analysis of individual risk for the Group is performed, resulting from any particular exposure, the Group applies the criteria for evaluation and classification of risk exposures compliance with the banking legislation of the Republic of Bulgaria, Macedonia, the Russian Federation and IFRS. According to these criteria, and the analysis performed the maximum exposure of the Group to credit risk amounts to BGN 1,909,475 thousand. In order to minimize the credit risk detailed lending process procedures on the analysis of the economic viability of each project, the types of collateral acceptable to the Group controls on the use of funds allocated and administration associated with that activity are applied. The Group maintains relation to total capital adequacy above the regulatory requirements, mainly as a measure against the risk of concentrations.

Adoption and control limits for credit risk limit concentrations of risk exposures by geographic areas, industries, business segments and groups of loans, presenting joint risk. The Group has adopted a methodology for calculating the provision for impairment of loans and advances to customers according to the IFRS. As of 31 December 2017 the amount of the Group's formed provisions to cover impairment losses on loans and advances amounts to BGN 119,348 thousand.

Quality of the credit portfolio

Classes of financial assets as at 31 December 2017:

Debt	**Granted loans**			**Unutilized engagement**	**Given guarantees**		
Group	**Amount BGN '000**	***Share %***	**Provisions BGN '000**	**Amount BGN '000**	**Amount BGN '000**	***Share %***	**Provisions BGN '000**
Serviced	2 296 807	91%	19 785	95 837	62 239	99.92%	43
Not serviced	227 042	9%	99 563	358	50	0.08%	-
Total	2 523 849	100%	119 348	96 195	62 289	100%	43

Classes of financial assets as at 31 December 2016:

Debt	**Granted loans**			**Unutilized engagement**	**Given guarantees**		
	Amount BGN '000	***Share %***	**Provisions BGN '000**	**Amount BGN '000**	***Share %***	**Provisions BGN '000**	**Amount BGN '000**
Serviced	2 202 896	90.83%	13 849	97 289	64 773	99.91%	47
Not serviced	222 504	9.17%	78 582	403	61	0.09%	-
Total	2 425 400	100%	92 431	97 692	64 834	100%	47

Loans granted by the Group can be summarized in the following table:

Name of the group	**31 December 2017**		**31 December 2016**	
	Loans, granted to non-financial clients	**Loans to banks and receivables under repurchase agreements**	**Loans, granted to non-financial clients**	**Loans to banks and receivables under repurchase agreements**
	BGN '000	**BGN '000**	**BGN '000**	**BGN '000**
Not outstanding and not impaired	2 052 498	196 910	1 942 272	199 258
Outstanding but not impaired	95 256	-	133 981	-
Impaired on individual base	376 095	-	349 147	-
Total	2 523 849	196 910	2 425 400	199 258
Set-aside provisions	(119 348)	-	(92 431)	-
Net loans	2 404 501	196 910	2 332 969	199 258

As at 31 December 2017 and 2016 the predominant share of the loans, represented as outstanding but not impaired, are loans, for which a 30-day delay in payment is allowed. The Group considers that such incidental delays are not indication for impairment of these loans.

Loans and advances, which are not outstanding and not impaired, are presented in the following table:

	2017 BGN'000	**2016 BGN'000**
Credit cards and overdrafts	20 007	19 959
Consumer loans	365 469	272 720
Mortgage loans	247 403	146 402
Corporate clients	1 419 619	1 503 192
	2 052 498	**1 942 273**

The value of the outstanding loans that are not impaired is presented in the table below. These loans are not impaired, as the delays are accidental and of up to a 30-day period, which does not necessitate their impairment.

	2017 BGN'000	**2016 BGN'000**
Credit cards and overdrafts	10 792	11 839
Consumer loans	34 623	31 583
Mortgage loans	14 601	15 143
Corporate clients	35 240	75 416
Total	**95 256**	**133 981**

The gross carrying amount of loans for which provision is made on an individual basis as at 31 December 2017 and 2016 is BGN 376 059 thousand and 349 147 thousand. These amounts do not include the cash flow from the collateral utilization of these loans.

31 December 2017	**Book value before impairment BGN '000**	**Impairment BGN '000**	**Book value after impairment BGN '000**
Consumer loans	76 282	11 057	65 225
Mortgage loans	78 659	210	78 449
Corporate clients	221 154	78 399	142 755
Total	376 095	89 666	286 429

31 December 2016	**Book value before impairment BGN '000**	**Impairment BGN '000**	**Book value after impairment BGN '000**
Consumer loans	43 286	10 109	33 177
Mortgage loans	39 379	105	39 274
Corporate clients	266 482	58 859	135 094
Total	349 147	69 073	207 545

The amount of net exposure for 2017 and 2016 for the five largest loans and advances to clients is BGN 296 143 thousand and BGN 318 549 thousand respectively, which represents 12.31% and 13.65% of the credits and advances to clients of the Group.

Business segment, classification group and delays of payments as at 31 December 2017:

Segment	**Amount** Group	**Number of transactions**	**Debt**	**Including delay of payment of** Principal	Interest	Court receivables	**Provisions**	**Unutilized engagement**
Trade	Serviced	116 688	807 357	900	275	-	2 753	53 896
	Not serviced	5 164	40 467	2 765	1 778	17 705	19 433	251
Total		121 852	847 824	3 665	2 053	17 705	22 186	54 147
Corporate	Serviced	1 990	1 476 355	533	153	-	17 031	41 344
	Not serviced	228	186 579	28 692	7 374	60 319	80 131	107
Total		2 218	1 662 934	29 225	7 527	60 319	97 162	41 451
Budget	Serviced	6	13 091	-	-	-	-	-
	Not serviced	-	-	-	-	-	-	-
Total		6	13 091	-	-	-	-	-
	Total portfolio	**124 076**	**2 523 849**	**32 889**	**9 580**	**78 024**	**119 348**	**95 598**

Business segment, classification group and delays of payments as at 31 December 2016:

Segment	Group	Amount Number of transactions	Debt	Including delay of payment of Principal	Interest	Court receivables	Provisions	Unutilized engagement
Trade	Serviced	97 321	594 977	1 064	321	-	2 428	50 946
	Not serviced	5 408	41 493	2 761	2 089	16 124	17 661	296
Total		102 729	636 470	3 825	2 410	16 124	20 089	51 242
Corporate	Serviced	1 387	1 594 993	6 044	3 044	-	11 421	45 764
	Not serviced	227	181 011	44 068	10 405	55 782	60 921	107
Total		1 614	1 776 004	50 112	13 449	55 782	72 342	45 871
Budget	Serviced	7	12 926	-	-	-	-	557
	Not serviced	-	-	-	-	-	-	-
Total		7	12 926	-	-	-	-	557
	Total portfolio	104 350	2 425 400	53 937	15 859	71 906	92 431	97 670

Credit exposures with restructuring measures

As exposures with restructuring measures the Group accepts credit exposures that have changed the original terms of the contract caused by deterioration in the financial condition of the debtor leading to inability to pay the full amount of the debt on time and other discounts that the bank would not give in other circumstances.

The amendments to the original terms of the contract in connection with the implementation of measures under restraint may include:

- Reduction /removal/ of the debt or part of it;
- Replacement of part of the debt to equity;
- Refinancing of exposures that the debtor is unable to fulfil under the current contract;
- When the contract terms include more favourable terms for the repayment of obligations compared with the terms that the Bank would offer other clients with similar risk profile;
- Reduction of the interest rate under the contract, except for the change in the contractual rate of interest arising from changes in market interest rates.

Information on exposures with restraint measures is as follows::

2017

	Corporate clients BGN ‘000	Individuals BGN ‘000
Book value before impairment	276 808	1 605
Impairment	(44 152)	(454)
Net value	**232 656**	**1 151**

2016

	Corporate clients BGN ‘000	Individuals BGN ‘000
Book value before impairment	150 991	1 423
Impairment	(26 353)	(659)
Net value	**124 638**	**764**

As at 31 December 2017 exposures to corporate clients with a value before impairment of BGN 150,068 thousand represent serviced exposures that are not subject to delinquency.

Collateral on loans granted
Mortgage loans to natural persons

The table below presents the book value of mortgage loans granted to natural persons as per the coefficient of security (loan-to-value ratio). The ratio is calculated as the ratio of the gross value of the credit exposure to the value of the collateral. The value of the collateral on mortgage loans is determined when the loan is granted and is updated upon significant changes in the prices of the housing market.

Coefficient of security (loan-to-value)	2017 BGN'000	2016 BGN'000
Less than 50%	63 656	49 867
50% to 75%	117 368	84 918
75% to 90%	92 568	52 471
90% to 100%	8 041	7 102
Over 100%	3 620	2 284
Total	**285 253**	**196 642**

Loans granted to legal entities

With regard to loans to legal entities, the Group identifies the creditworthiness of each individual client as the most appropriate risk exposure indicator. Therefore, the Group has adopted an approach for individual credit assessment and impairment testing of corporate loans. To ensure additional security, in addition to the regular monitoring of the financial position of the legal entities - borrowers, the Group requires collaterals on the credit exposures to be provided. The Group accepts collateral for loans to legal persons in the form of mortgages on real estate, pledge of a commercial enterprise, a special pledge of tangible assets, and other guarantees and rights of ownership.

The Group periodically analyses and updates the value of the collateral taking into account significant changes in the market environment, the regulatory framework or other circumstances. In the event that there is a decrease in the value of the collateral, the Group may consider that it is not sufficient, and may require additional collateral by setting a certain period within which the addition will be provided.

50.5. Liquidity risk analysis

Liquidity risk is the risk that the Group cannot meet its liabilities. The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash in- and outflows due to day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. The need for cash is compared to the available loans in order to determine shortage or surplus. This analysis determines whether the loans available will be enough to cover the Group's needs for the period.

The Group maintains cash to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and sale of long-term financial assets. As at 31 December 2017 Group's liabilities (including interest payables where applicable) have contractual maturities, summarized below:

	Current	Non-current	
	Within 12 months	From 2 to 5 years	Over 5 years
	Current	Non-current	Current
Bank and other loans	95 507	128 879	40 093
Related parties payables	37 419	4 315	-
Financial lease payables	1 265	2 965	-
Liabilities to other depositors	3 980 628	1 069 700	2 613
Deposits from banks	7 048	-	-
Obligations under repo agreements	15 433	-	-
Liabilities under cession agreements	17 536	18 018	-
Trade and other payables	95 372	47 599	-
Derivatives	-	3 396	-
Total	**4 250 208**	**1 274 872**	**42 706**

As at 31 December 2016 Group's liabilities (including interest payables where applicable) have contractual maturities, summarized below:

	Current	Non-current	
	Within 12 months	From 2 to 5 years	Over 5 years
	BGN'000	BGN'000	BGN'000
Dividend payables	6 506	-	-
Bank and other loans	101 402	121 385	-
Related parties payables	17 692	4 493	-
Financial lease payables	1 506	3 846	-
Liabilities to other depositors	3 633 088	991 752	6 678
Deposits from banks	8 359	-	-
Obligations under repo agreements	17 409	-	-
Liabilities under cession agreements	18 591	4 206	-
Trade and other payables	166 137	1 856	-
Derivatives	209	-	-
Total	**3 970 899**	**1 127 538**	**6 678**

The amounts, reported in this analysis for the maturity of the liabilities represent the non-discounted cash flows from the contracts, which may differ from the carrying amounts of the liability as at the reporting date. The annual interest payments amount to BGN 7 451 thousand (2016: BGN 11 047 thousand).

Group's policy regarding banking activities

The Group follows the obligations and restriction arising from the regulations of the banking legislations in counties involved in the management and supervision of bank's liquidity. The Group maintains specialized collective bodies for liquidity's management, which adopt the Group's policy of managing the liquidity risk.

Quantitative measurement of liquidity risk, according to the regulations of the banking legislation is the coefficient of liquid assets, expressing the ratio of liquid assets to borrowing of the Group.

The Group traditionally maintains huge volume of highly liquid assets – cash and cash equivalents on hand and cash in Central Banks, which ensures the Group's smooth addressing of liquid need. As of 31 December 2017 they cover about 32.53% of the total assets of the Group. As an additional tool for ensuring high liquidity the Group uses resources and advances given to financial institutions. Essentially, these are deposits in prime foreign and Bulgarian financial institutions with maturity up to 7 days. As of 31 December 2017 they cover approximately 5.16% of the total assets. Bonds issued by the Republic of Bulgaria, governments of European Union countries and from National Bank of the Republic of Macedonia, which the Group possesses and has not pledged as a security are about 4.30% of the Group's assets. Maintaining approximately 42% of its assets in highly liquid assets, the Group is able to cover all its needs regarding payments on matured financial liabilities.

The allocation of financial liabilities of the Group as of 31 December 2017, according to their residual term is as follows:

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	Above 5 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
FINANCIAL LIABILITIES						
Deposits from banks	7 008	-	-	-	-	7 008
Credits from banks	4 361	-	6	172	-	4 539
Liabilities to other depositors	2 495 935	382 916	1 151 563	1 080 106	2 613	5 113 133
Other borrowed funds	-	-	-	778	-	778
Issued bonds	-	-	-	-	70 235	70 235
Provisions for liabilities	-	-	49	-	-	49
Other liabilities	14 821	-	-	-	848	15 669
TOTAL FINANCIAL LIABILITIES	2 522 125	382 916	1 151 618	1 081 056	73 696	5 211 411

Financial liabilities of the Group are formed mainly by borrowing from other depositors – deposits of natural persons and legal entities.

The allocation of financial liabilities of the Group as of 31 December 2016, according to their residual term is as follows:

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	Above 5 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
FINANCIAL LIABILITIES						
Deposits from banks	8 375	-	-	-	-	8 375
Credits from banks	8	-	20	218	-	246
Liabilities to other depositors	2 054 276	410 658	1 147 977	1 075 417	1 459	4 689 787
Other borrowed funds	4	21	14	778	-	817
Issued bonds	-	-	-	-	70 126	70 126
Provisions for liabilities	-	-	1 205	-	-	1 205
Other liabilities	12 375	-	-	-	-	12 375
TOTAL FINANCIAL LIABILITIES	2 075 038	410 679	1 149 216	1 076 413	71 585	4 782 931

In the tables above, part of the attract funding on current accounts with no residual maturity amounting to BGN 1 214 552 thousand as of 31 December 2017 and BGN 1 029 962 thousand as at 31 December 2016 is presented in the range of 1 year to 5 years, as the Group considers this reserve to be a reliable long-term resource based on the average daily balance on those accounts for 2017 and 2016.

Financial assets as means for managing the liquidity risk

While appraising and managing the liquidity risk the Group measures the expected cash flows from financial instruments, namely the available cash and trade receivables. The available cash resources and trade and other receivables significantly exceed the current needs of cash outflow. According to the concluded agreements all cash flows from trade and other receivables are due within 1 year.

51. Fair value measurement

51.1. Fair value measurement of financial instruments

Financial assets and liabilities at fair value in the consolidated financial statements of financial position are grouped into three levels according to the fair value hierarchy

This hierarchy groups is based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset that are not based on observable market data.

A financial asset is classified at the lowest level of significant inputs used in measuring fair value.

31 December 2017	**Note**	**Level 1 BGN'000**	**Level 2 BGN'000**	**Level 3 BGN'000**	**Total BGN'000**
Assets					
Financial assets held for trading	a)	1 207 221	219 138	3 965	1 430 323
Financial assets available for sale	b)	560 077	-	104 118	664 195
Total assets		**1 767 298**	**219 138**	**108 083**	**2 094 518**
Liabilities					
Derivatives	c)	-	3 396	-	3 396
Total liabilities		**-**	**3 3 96**	**-**	**3 396**

There have been no transfers between levels 1 and 2 during the reporting period.

Measurement of fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

a) Listed equity instruments

All listed equity investments are denominated in BGN and are publicly traded on the Bulgarian Stock Exchange, Sofia. Fair values have been determined by reference to their quoted bid prices at the reporting date.

b) Non-listed equity instruments

The fair value of these instruments is based on observed rates of recent market transactions with shares of similar companies, adjusted for specific factors.

c) Derivatives

When derivative financial instruments are traded on stock markets or liquid OTC markets, the Group uses the closing prices on the stock markets at the reporting date. When derivative financial instruments are not traded on active markets, the fair value of these contracts is determined by using valuation techniques using observable market data (Level 2).

d) Loans in BGN

The fair value of loans is determined by using valuation techniques.

All significant inputs to the model are based on observable market prices, namely market interest rates on similar loans with similar risk.

51.2. Fair value measurement of nonfinancial assets

The following table shows the levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 December 2017:

31 December 2017	Level 1 BGN '000	Level 2 BGN '000	Level 3 BGN '000	Total BGN '000
Investment property:				
Land, building, machines and equipment	-	-	405 502	405 502

Fair value of the Company's main property assets is estimated based on appraisals performed by independent qualified appraisers.

Land, buildings, machines and equipment (Level 3)

The land, buildings, machines and equipment are revaluated on 31 December 2017.

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

Investment properties	Land, buildings, machines and equipment BGN'000
Balance at 1 January 2017	337 574
Gains or losses recognised in profit or loss	
- change in fair value of investment property	2 108
Acquisitions and reclassifications	82 833
Disposals and reclassifications	(17 013)
Balance at 31 December 2017	**405 502**
Total amount included within Revenue from operating activity as a result of unrealized gains or losses from assets held at the end of the reporting period	2 108

52. Capital management policies and procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and
- To provide an adequate return to the shareholders by pricing products and services commensurately with the level of risk.

The Group monitors capital on the basis of the correlation between capital to net debt.

The Group determines the capital based on the carrying amount of the equity presented in the statement of financial position.

Net debt is calculated as total liabilities less the carrying amount of the cash and cash equivalents.

Group's goal is to maintain a capital-to-net-debt ratio in a reasonable range, which would ensure relevant and conservative ratio of financing.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital for the presented reporting periods is summarized as follows:

	2017 BGN‘000	2016 BGN‘000
Shareholders’ equity	1 673 248	1 603 160
Equity	**1 673 248**	**1 603 160**
Debt	6 893 609	6 305 312
- Cash and cash equivalents	(2 204 904)	(1 767 126)
Net debt	**4 688 705**	**4 538 186**
Capital to net debt	**1:2.81**	**1:2.83**

The change in ratio during 2017 is relatively the same as the ratio for 2016. The Group has honoured its covenant obligations, including maintaining capital ratios.

53. Post-reporting date events

The Group sings preliminary sale/purchase agreement on 5 February 2018 for sale of the equity instruments of Pharmimport AD(Chimimport Pharma AD) held by the Group. On 23 March 2018, the sale of the subsidiary was published in the Commercial Register at the Registry Agency.

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

54. Authorization of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2017 (including comparatives) were approved by the Managing board on 30 April 2018.