TBI BANK EAD

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED FOR USE BY THE EUROPEAN UNION

31 DECEMBER 2019

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

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Consolidated annual management report

TBI Bank EAD

TBI Bank EAD (the "Bank"), with UIC 131134023, is a member of 4Finance Group, which as at 31 December 2019 holds 100% (81,600,000 shares) of the Bank's capital through TBIF Financial Services B.V.. TBI Bank EAD, together with its subsidiaries TBI Credit IFN S.A., TBI Leasing IFN S.A. and 4Finance EOOD, offers a wide range of banking and financial services to local and foreign customers through its more than 258 offices and remote working stations, serviced by 1,435 employees (2018: 1,494 employees).

The Bank operates in Bulgaria through its headquarters, and in Romania through a branch registered in October 2012 on the basis of the single European passport. The subsidiaries of the Bank provide non-banking financial services through the existing office network, with a key focus on servicing individuals and small and medium-sized enterprises.

The Bank performs services as an investment intermediary in accordance with the provisions of the Public Offering of Securities Act ("POSA"). As an investment intermediary, the Bank complies with certain requirements for customer protection in accordance with the Markets in Financial Instruments Act ("MFIA"), Ordinance 38 and Ordinance 58 issued by the Financial Supervision Commission ("FSC"). The Bank has established and implements a procedure for the conclusion and execution of contracts with customers, collection of customer information, keeping of books and safeguarding customers' assets in compliance with local regulations and in particular, the requirements of Ordinance 38, art. 28 – 31 and Ordinance 58, art. 3. The Bank has established internal control rules and procedures to ensure compliance with the regulatory framework applicable to its operations.

TBI Bank EAD has a two-tier governance structure. All members of the supervisory and management boards comply with the requirements of the Credit Institutions Act ("CIA") and Regulation 20 of the Bulgarian National Bank ("BNB"), and have been explicitly approved by the latter. TBI Bank EAD has a functioning audit committee, the structure of which is compliant with the requirements of the Independent Financial Audit Act ("IFAA").

As at 31 December 2019, TBI Bank EAD is the owner of TBI Credit IFN S.A., Romania; TBI Leasing IFN S.A., Romania; and 4Finance EOOD, Bulgaria (the "Group").

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The Group holds a well-diversified customer portfolio. It's strategy, with adopted focus on increased retail lending to individuals, sets the pattern for the significant growth of loan portfolio volumes, which characterised the Group's operations in both 2018 and 2019. The Group maintains solid profitability levels, despite having to attract deposits at increasingly higher cost. The maintenance of stable liquidity levels is of great importance. Despite the expansion of its operations and the sharp increase in lending volumes, the Group maintains adequate levels of liquidity.

In 2019, the Group generated net interest income at the amount of BGN 169,257 thousand, or a 19.87% increase compared to 2018, which is attributable to the significant growth of the loan portfolio. The 2019 profit of the Group amounts to BGN 44,732 thousand, compared to a profit in the prior year of BGN 28,324 thousand.

Operating revenue (net interest income, net fee and commission income, net foreign exchange gains and other income) follows a similar pattern to net interest income, and has grown by 15.14% during the reporting period as compared to the prior year.

The operating revenue structure is as follows: net interest income represents 91.75%, fee and commission income – 11.18 %, and the remaining components of net operating income account for a loss of 2.93%.

In 2019, the total assets of the Group went up by 17.24%, compared to the end of 2018 and reached BGN 909,247 thousand (Y2018: BGN 775,516 thousand). At the end of 2019, the biggest increase by BGN 111,108 thousand was noted in loans to customers. The increase in the loan portfolio was due to the increase in retail exposures, which substantially exceeded the share of corporate loans.

The Group's liabilities as of 31 December 2019 amount to BGN 683,710 thousand (Y2018: BGN 569,718 thousand), 92.8% of which, or BGN 634,497 thousand (Y2018: BGN 534,966 thousand), represent deposits from customers and banks. A 14.92% increase (by BGN 79,057 thousand) in deposits from customers, and a more than 100% increase (by BGN 20,474 thousand) in deposits from banks were realised in 2019.

in BGN'000	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Total assets	909,247	775,516	718,728	623,739	536,263	480,480	406,209
Equity	225,537	205,798	184,142	146,022	110,854	70,255	52,313

There is an increase in the Group's equity by 9.59% as a result of the profit generated during the year.

Liquidity and risks

According to the current liquidity measurement and management policy, the liquid assets ratio (the ratio of liquid assets to deposits other than those attracted from credit institutions) is used as key indicator. At the end of 2019, this indicator stood at 29.33 % (Y2018: 31.47 %), which illustrating the stability of the cash flows, and significantly exceeded the minimum required threshold of 20%.

	2019	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Liquidity ratio (%)	29.33	31.47	38.89	38.51	35.40	40.15	39.46

In 2018 the Bank also started to calculate the ratio of liquid assets to deposits, including those attracted from credit institutions. As at the end of 2019 the ratio was 31.1% as compared to 35.7% a year earlier.

Trends, events or risks that might have material impact on operations:

The coronavirus ("COVID-19") pandemic was confirmed by the World Health Organization at the beginning of 2020. The COVID-19 cases spread from China to the rest of the world, causing disruption to normal business operations. On 8 March 2020, Bulgaria announced the first COVID-19 cases. On 13 March 2020, the National Assembly of the Republic of Bulgaria declared a nationwide state of emergency due to the coronavirus outbreak and imposed harsh preventive measures and tight restrictions.

The spread of COVID-19 has already been assessed as an event having a substantial impact on the global demand and supply of economic and financial resources. This has led to considerable uncertainty in the economic activity of many businesses and entities. For the purposes of the consolidated financial statements for 2019, management assesses the impact of the COVID-19 outbreak as a non-adjusting event that occurred after the balance sheet date. At the current stage of the coronavirus spread and the dynamics with which it develops, it is practically impossible to make a reliable assessment and determine the potential effects of the pandemic on the operations and, in particular, on the lending activities, the quality of the loan portfolio, the assets and the economic development of the Bank and its subsidiaries.

In accordance with the measures introduced by the governments and central banks of Bulgaria and Romania, the management of the Group has taken and has already carried out a number of measures to limit the potential future negative outcomes and impact of the COVID-19 outbreak. The key actions taken include:

- a contingency plan has been launched;
- critical functions have been identified and the scope of duties of staff in relation to these have been determined in order to ensure continuity;

- safe and healthy work environment and the option for remote work have been provided;
- active monitoring and management of inflows and outflows is carried out and remote daily communication – as a matter of priority – is established with borrowers;
- ad hoc monitoring and assessment of credit risk exposure – the risk of a borrower defaulting – within the timeframe of 3 to 6 months;
- a number of preventive measures have been taken to protect the staff – the Group has purchased personal hygiene and disinfection products for its employees;
- instructions are issued and given to all employees in relation to their conduct in the current situation, the organization of and participation in business meetings, business trips and trips abroad, participation in mass events and taking annual leave;
- customer service organization plan has been drawn up.

In the context of limited economic growth, the Group works towards efficient risk management with main focus on improvement of the processes in the areas of lending, payments, customer service and maintenance of the loan portfolio quality. Emphasis is laid on the timely measures for collection of problematic receivables. The trends for the future development of the Group in general are for continued increase in the amount of assets, especially loans, as well as for increase in attracted funds.

The major risks, relating to the operations of the Group and the banking sector as a whole are:

- credit risk – the maximum exposure to credit risk as at 31 December 2019 amounts to BGN 886,990 thousand;
- liquidity risk – the net difference in liquidity of the assets and liabilities with maturity up to one month as at 31 December 2019 amounts to BGN 77,177 thousand;
- currency risk – to hedge its currency risk, the Group uses currency swaps;
- interest rate risk – the effect of changes in interest rates by +/- 100 basis points on the 2019 profit would amount to +/- BGN 2,532 thousand;
- inflation risk;
- business risk;
- operational risk (including reputation risk).

In view of the current economic environment, business and credit risks exercise the greatest impact on the Group's operations. To address these challenges, the Group has developed a clear growth strategy which includes targeting a focused segment of customers, as well as enhancing the existing market share through geographic diversification of assets and liabilities.

It should be emphasized that a large portion of the term funding from individuals and legal entities is subject to relevant measures to motivate rolling forward of the repsective deposits. Corporate deposits are generally large in size and it is common practice to have their terms and conditions reconsidered and negotiated shortly before their maturity date.

A policy of matching fixed and floating interest rate assets and liabilities is applied with respect to interest rate risk. The Group's policy is to determine a minimum interest rate threshold for floating rate assets.

To manage credit risk the Group has developed strict procedures for analysis and assessment of potential borrowers, including scoring procedures and detailed verification of the data provided. In addition, the Group has developed an effective payment monitoring system, as well as active measures for collection of receivables. Preliminary analysis and subsequent monthly monitoring are in place to detect concentration of related parties by sectors of the economy and other cross-sections in compliance with the Group's internal rules.

Research and development

The Group carries out no research and development activities.

Significant events after the annual closing of accounts

Except for the events disclosed in Note 32 to the consolidated financial statements, no other significant events have occurred after 31 December 2019, which may have an effect on the Group's operations or may require adjustments in the financial statements.

Future plans of the Group

The management of the Group expects the economic environment in Bulgaria and Romania to continue its stabilisation and pass on to gradual economic growth. The macroeconomic and financial stability will contribute to the growing market of financial services in a viable, efficient and competitive banking system. We expect acceleration of the process of integration of the Bulgarian economic and financial system within the European space.

This will contribute to the implementation of new and the expansion of existing bank services and products. The Group will continue to maintain adequate financial, managerial, and technical capacity as basis for efficient and thriving banking and financial activity.

The Group will continue its development in the main segments of the banking and financial market. The main focus will be placed on lending to individuals. The Group will continue to develop products offering competitive conditions on deposits and current account to its customers, while developing project financing and commercial financing as well as new, innovative products. The future development of the Group will be based on the creation of wider customer base and stable distribution network for financial services, including offline and online distribution channels. The main development focus will be on electronic commercial transactions. The Group will continue to keep high corporate governance standards, and will work actively for the development of bank security, by implementing flexible and efficient organisational structure with clear segregation of duties and responsibilities. The Group will continue to create opportunities for internal competition between the units, control and incentives with continuous improvement of the qualifications of its employees. It will follow an ambitious personnel recruitment, training and renewal policy.

The Group employs highly qualified personnel sharing the following major values:
- motivation and professional ambition;
- open and free communication;
- taking personal responsibility;
- commitment to the standards and goals of the organisation.

The main objectives and tasks the Group is facing are related to:
- ensuring maximum security for the customers and depositors of the Group;
- maintenance of high asset quality with stable liquidity and profitability;
- maintenance of sufficient capital adequacy corresponding to the risk profile of the Group, and proper management of currency, interest rate and other risks, inherent to the banking operations;
- efficient cost control;
- good return on shareholders' equity.

Information required under art. 187(e) of the Commercial Act regarding treasury shares held, redeemed or transferred

No shares were redeemed or transferred during the year.

The interests held by the members of the supervisory and management boards in commercial entities as unlimited liable partners, the holding of more than 25% of the capital of another entity, as well as their involvement in the management of other entities or cooperatives as procurators, general managers or board members are as follows:

- **Ariel Hason – chairman of the supervisory board**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) legal entities in which he holds, directly or indirectly, at least 25% of the shareholder votes or has control:
     - Trailpoint Ltd., Israel – 100%
  3) legal entities where he sits on the management or controlling bodies:
     - TBIF Financial Services B.V., the Netherlands – member of the board of directors and executive director;
     - Kardan B.V., the Netherlands – member of the board of directors and executive director;
     - non-executive member of the management bodies of subsidiaries that are fully controlled by Kardan N.V., The Netherlands.

- **Kieran Donnelly – member of the supervisory board**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) there are no legal entities in which he holds, directly or indirectly, at least 25% of the shareholder votes or where he has control;
  3) legal entities where he sits on the management or controlling bodies:
     - Scion Spirits Co., Ireland – chairman of the board of directors;

- **Gauthier Van Weddingen – member of the supervisory board**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) legal entities in which he holds, directly or indirectly, at least 25% of the shareholder votes or where he has control:
     - Nero Renewables N.V. – 45 %.
     - Eki'O SPRL – 100%
  3) legal entities where he sits on the management or controlling bodies:
     - Nero Renewables N.V. – chief executive director
     - Eki'O SPRL – director
     - Stichiting Nero Joint Project – secretary and cashier.

- **Valentin Galabov – member and chairman of the management board and executive director**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) legal entities in which he holds, directly or indirectly, at least 25% of the shareholder votes or where he has control:
     - TBI Leasing EAD – 100%;
  3) there are no legal entities where she sits on the management or controlling bodies.

- **Alexander Dimitrov – member of the management board and executive director**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) there are no legal entities in which he holds, directly or indirectly, at least 25% of the shareholder votes or where he has control;
  3) there are no legal entities where he sits on the management or controlling bodies.

- **Nikolay Spasov – member of the management board and executive director**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) there are no legal entities in which he holds, directly or indirectly, at least 25% of the shareholeder votes or where he has control;
  3) there are no legal entities where he sits on the management or controlling bodies.

- **Florentina Virdzhiniya Mircha – member of the management board and executive director**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) legal entities in which she holds, directly or indirectly, at least 25% of the shareholder votes or where she has control:
     - Aviatiq Support S.R.A., Romania – 50%;
     - Business Support S.R.A., Romania – 86.36%;
  3) legal entities where she sits on the management or controlling bodies:
     - TBI Leasing IFN S.A., Romania – member of the board of directors and executive director;
     - TBI Fleet Management S.A. Romania – member of the board of directors and executive director.

- **Gergana Staykova – member of the management board and executive director (from 23 January 2018)**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) there are no legal entities in which she holds, directly or indirectly, at least 25% of the shareholder votes or where she has control;
  3) legal entities where she sits on the management or controlling bodies:
     - TBI Credit IFN S.A., Romania – member and chair of the board of directors.

- **Nora Petkova – member of the management board and executive director (until 23 January 2018)**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) there are no legal entities in which she holds, directly or indirectly, at least 25% of the shareholder votes or where she has control;
  3) there are no legal entities where she sits on the management or controlling bodies.

Contracts signed in 2018 under art. 240 (b) of the Commercial Act:

The members of the boards and their related parties have no contracts signed for activities beyond the ordinary ones, or at terms and conditions significantly different from the ordinary market conditions.

The total net income received by the members of the management board and the members of the supervisory board in 2019 amounts to BGN 1,566 thousand.

Information regarding shares and bonds acquired, held and transferred by the management and supervisory board members during the year

The members of the management board are not allowed to acquire shares and bonds issued by the Bank. Therefore, the members of the management board of the Bank have not acquired, held or transferred shares or bonds in 2019.

Management is required by Bulgarian legislation to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and of its financial performance as at the year end. Management has prepared the accompanying financial statements in accordance with the International Financial Reporting Standards ("IFRS"), as adopted for use by the European Union.

Management confirms that it has consistently applied adequate accounting policies and has complied with the current IFRS requirements. The financial statements have been prepared on a going concern basis.

In the future TBI Bank EAD will continue to provide high quality banking services, market-driven products and will strive to remain the best banking partner for its customers.

The annual management report was approved for issue by the management board of the Bank on 28 April 2020 and signed on its behalf by:

Valentin Galabov
(executive director and
management board member)

Alexander Dimitrov
(executive director and
management board member)

Consolidated non-financial declaration pursuant to article 15, item 2 of the Accountancy Act TBI Bank EAD

TBI Bank EAD (the "Bank") is a Bulgarian joint-stock company. It has the following operations: corporate and consumer lending, acceptance of deposits and other repayable funds from the public, investment intermediary services, payment services, dealing on own account or when executing customer orders, foreign exchange and precious metals trading, guarantee transactions, and all other related operations as laid down in the Bulgarian National Bank's regulatory framework.

The Bank has a branch operating in Romania, which is registered under the local law. Its activities overlap with those of the Bank in Bulgaria, except for investment intermediary services. In addition, the Bank has two subsidiaries in Romania – TBI Credit IFN S.A., whose main activity is consumer lending and TBI Leasing IFN S.A., which provides leasing services, as well as one subsidiary in Bulgaria – 4Finance EOOD, whose main activity is consumer lending (herein after collectively referred to as the "Group").

The goal of the Group is to develop as a major player on the consumer lending market in Bulgaria and Romania by offering offline and online services and products and by focusing mainly on different lending facilities, such as money and commodity loans, as well as on credit card offering. To achieve this goal, the Bank employs a strategy that relies on technological development and on building diversified teams of young and talented people.

Anti-corruption policies and activities

The Group has brought its business operations in line with the requirements of anti-bribery and anti-corruption laws. The policy of the Bank is to carry out its business operations in an honest and ethical manner. All employees are expected to apply the highest standards of professional and personal ethics in fulfilling their assigned duties.

The guiding principles related to the anti-bribery and anti-corruption policy are set up in the Code of Ethics of the administrators and employees of TBI Bank EAD (the "Code"). The Code is accessible on the Bank's internal website and is designed for all employees hired under an employment contract as well as for all counterparties who carry out various operations for the Bank on any other ground.

The Regulatory Compliance Department ("RCD") is charged with exercising an effective control over possible risks of misconduct, bribery and corruption. The heads of departments of the Bank are responsible for enforcing the rules and surveying employees' activities, and in the event of non-compliance, they inform the Regulatory Compliance Department and the Bank's management.

For the early detection and prevention of misconduct, the RCD encourages the employees of the Bank to act in good faith and to report suspected misconduct to their supervisors as well as to ensure compliance with the internal rules and procedures in identifying and investigating unauthorized or unusual activities. As part of the regular trainings of the RCD employees, various issues related to the detection and reporting of cases of misconduct are also considered.

The employees of the Bank have the opportunity to send signals for any specific violations of the Code of Ethics through different communication channels: via telephone, e-mail: compliance@tbibank.bg, or by sending a hard-copy letter to the RCD.

Third parties may report violations through the website of TBI Bank EAD – www.tbibank.bg or may file a letter of complaint to the Bank's headquarters or offices. The signals are to be sent in case of suspected violation of ethical and professional conduct, damage to the interests of the customers, or non-compliance with the requirements for protection of banking information and data.

Any signals received are examined by the legal advisor of the RCD with regard to their legal soundness. The legal adviser then prepares an opinion as to the level of legal risk based on the circumstances described in the signal and their impact on the Bank. Whenever any evidence for reasonable suspicion of unacceptable activities or behaviour is found, based on the legal opinion, action is taken for further investigation by collecting additional information and clarification with the assistance of the relevant managerial employee and the heads of Internal

Audit Department and Internal Security Department. The investigation may also include employees from other departments of the Bank.

The RCD shall notify the management board and the supervisory board of all the cases of serious violations of the Code of Ethics of the administrators and employees and shall suggests follow-up actions, such as:

- laying down and implementing appropriate measures by the respective managerial employee;
- laying down and implementing measures in compliance with the internal rules and procedures of the Bank;
- notifying external institutions such as law enforcement authorities, court, prosecution, etc.

Copies of all reports on cases of misconduct, examined by the RCD, including information on proposed measures for the improvement of the internal control system and the measures taken, are kept by the RCD.

Staff and human rights policies and activities

The Group enforces and observes the provisions of local labour law and of the health and safety at work legislation. The Group follows the world's best practices in these areas, which are introduced and adopted for considering and settling issues concerning its employees. Human resource management and development policies and procedures provide the necessary clarity and guidance to both managers and employees in the organization.

About 1,435 employees work in the Bank and its related structures, with a 1:3 ratio of men to women.

This number includes 110 employees, who were on parental leave at the time of the preparation of the non-financial declaration.

The Group applies the principle of equal pay for men and women for work with equal value. The people who work in the organisation are its most important assets and represent its best investments. This follows the Group's strategy to embrace change, which can only be brought about by people and ultimately depends on their skills and competences.

We have implemented improvements in the field of human resource management imposed by the need for knowledge management, which creates a competitive advantage for faster and more competent decision-making. We employ web-based systems to facilitate faster communication between people and structures, to spread and exchange knowledge and to share innovations that shape societies and economies. We always strive to be the first.

As a result, human resource management acquires an increasingly strategic dimension. It focuses primarily on unlocking the human-resource potential in the organization in order to pave the road for continuous change and for making the most of it to achieve the Group's goals.

In the activities related to human resource management and development the Group attempts to ensure transparency and equality for employees, and to provide multiple opportunities for knowledge and skills acquisition as well as overall career development.

A schedule of training courses for employees is prepared annually for the next calendar year. The schedule is discussed with the relevant heads of departments and approved by senior management.

The supervisors are consulted about the training sessions which are then carried out. Their effectiveness is subsequently assessed and follow-up actions are developed to improve the teaching processes. The average number of training hours per employee per year is not less than 8.

In the area of employee selection, newly created jobs and functional positions are first announced internally and any employee who wihes and meets the specified requirements has the right and opportunity to apply. The application process and the subsequent steps are laid down in the internal rules and procedures of the Group.

Additionally, by giving recommendation for specific professionals meeting the above requirements, the employees of the Group themselves contribute to the formation of efficient and high-performance professional teams.

New recruits attend introductory professional training courses that are consistent with the regulatory requirements for the relevant positions, as well as other trainings related to the quality performance of the assigned tasks. As a result of a detailed analysis of training and development needs, employees have the opportunity to attend ad hoc or regular training courses, both to improve their professional competencies as well as to develop soft skills such as: customer relationship management, project management, team management, and more.

In its activities related to human resource management and development, the organization is in partnership with external institutions – universities, recruitment agencies, training and consulting firms.

We actively participate in various employers' fairs where we present the work and development opportunities at TBI Bank EAD and support the professional orientation of young people.

For several years now, we have been actively supporting the "Manager for a Day" initiative of Junior Achievement Bulgaria and give the chance to ambitious young people to participate in real working processes and projects and to make their first steps towards choosing a profession.

It is important for the Group to make sure that its employees consider their job rewarding and satisfying. To this purpose, the Group organizes corporate team-building events and other initiatives that support team development and promote a feeling of "belonging".

For the Group, people come first. The Group's employees are treated with respect and care. Additional health care plans and preventive health care check-up packages are avialable for the staff, as well as sport opportunities with preferential rates.

In terms of remuneration policy, the Group has introduced bonus and incentive scheme payment along with hourly payment. For administrative and headquarters staff, hourly rate payment is used – payment based on the number of hours worked, which can be 4, 6 or 8 hours per day. This payment scheme does not measure the amount of work, but only the time devoted to labour. For all sales and collection-related positions, the scheme combines bonus and hourly rate payment. Remuneration is divided into two parts: the first is a guaranteed minimum wage based on work hours and the second is a bonus payment which is determined based on quantitative and qualitative indicators.

In order to ensure workplace safety and health, the Bank has engaged external occupational health services for its structures in Bulgaria and Romania. They provide the necessary recommendations, trainings and document drafting related to the creation and maintenance of employees' personal health records and to the preparation of annual analysis of employees' health status on the basis of the results of preliminary and regular preventive health care check-ups and examinations, the indicators for permanent or temporary incapacity for work and their relation to working conditions, records for occupational illnesses and traumas. External occupational health services also recommend qualified medical practitioners, clinical and instrumental examinations necessary for conducting mandatory preliminary check-ups and regular medical examinations of employees. They also determine the frequency of the mandatory check-ups, depending on the potential health risk level. Occupational health services draw conclusions as to the suitability of an individual for a given position and the activities related to it based on the results from the mandatory preliminary medical examination and on the results from the conducted health check-ups. They also lay down a system of workplace safety and health rules, regulations and instructions.

The Group has established and maintains several internal communication channels. In this way, the Bank's employees are always kept informed of important ongoing projects. They can also address questions and receive answers.

An idea-sharing platform has been created, aiming at optimizing workflows, where employees have the opportunity to come up with well-grounded suggestions, make recommendations, give ideas and describe them in detail. A commission is set up to look at all proposals and to take decisions for follow-up steps, while the employees themselves get feedback in full transparency and are able to participate actively in the process of their realization.

Environmental protection policies and activities

Sustainable business development is much more valuable for TBI Bank EAD than short-term profitability and other commercial benefits. We believe that our duty to protect our nature is a key element of our concern for the well-being of all stakeholders and the entire society. That is why we strive to reduce the negative environmental impact of our activities and to use every opportunity to contribute to the protection of our natural surroundings.

TBI Bank EAD, like any other company, leaves its mark on the environment. This is mainly due to the consumption of energy and water resources, the use of paper and other materials related to the day-to-day operations of the Bank. The state of our offices, the efficiency of the equipment and vehicles used also have an impact.

Over the last two years, the Bank has made efforts to modernize its offices and headquarters. We introduced the use of high-performance air conditioning systems and building management systems, we renovated thermal insulation and lighting. As a result of these renovations, total energy consumption has been reduced.

In addition to the reduction of energy consumption, for many of the internal processes, we use electronic document exchange, which is also part of our strategic understanding of digitization of the business and operating processes. Today we offer our customers a high level of service and innovative banking services, using significantly fewer resources. Paper is not used in most work processes, and where paperless data exchange is impossible, it is limited to the minimum. All these optimizations have significantly reduced the use of paper in the Group.

After optimizing its own processes, the Group would like to help both its customers and partners to change the way they think and do business in an environmentally friendly way. The Group encourages them to use innovative technical solutions and to reduce the consumption of paper and other resources used in their business operations.

We find it important to be close to our customers and partners. This requires the frequent use of vehicles. Since the establishment of the Bank, its employees have been using vehicles with fuel-efficient engines. As a further step to lessen the impact on the environment, in 2018 TBI Bank EAD started a process of replacing a large portion of its vehicle fleet with more economical cars which meet the highest European Union exhaust emission standards. This process continued in 2019 as well.

TBIF Financial Services B.V Group, part of the 4Finance financial group, can boast about its significantly improved environmental performance and we are fully determined to transfer and improve its best practices to the markets we operate in. In this regard, we commit ourselves to setting appropriate goals and objectives, continuously monitoring, assessing and enhancing our environmental performance and strictly complying with all local, national and international legislation in the field.

As a socially responsible institution, we are committed to use our influence and share our experience in order to work for the protection and preservation of the world that we are going to leave to our children. To this purpose, we will not only adhere to an environmentally responsible policy in our day-to-day business operations, but will gradually extend it to our customers, partners, suppliers and the entire society to help enforce environmentally friendly business practices and achieve sustainable economic growth.

Social issues policies and activities

TBI Bank EAD's customers are at the heart of its activities and the main priority of our management is to make their lives simpler, faster and better. As customers become more and more digitally oriented in their daily lives, their expectations with regards to banking services are also evolving and the goal of TBI Bank EAD is to use a wider range of technologies to meet their needs.

In its customers relations, the Group has devoted itself to conveying pro-social messages and establishing ethical business standards. It acts in a socially responsible way by using all of its available channels of communication.

TBI Bank EAD also makes efforts in connection with a number of initiatives aiming to encourage and improve financial literacy among consumers in general and Bulgarian students in particular in order to provide them with better strategies for taking informed and effective financial decisions.

In 2019, for the third consecutive year, the Bank actively supported the "Bulgarian Christmas" charity initiative which is under the auspices of the President of the Republic of Bulgaria. Its main goal is to raise funds for the medical treatment of Bulgarian children and to purchase specialized equipment for the largest pediatric clinics in the country. During the year, the Bank also made several donations to "Prof. Decho Dechev" – a specialized school and kindergarten for children with hearing impairment.

The main objective of TBI Bank EAD is the building and development of successful teams of talented people from diverse backgrounds which will be able to contribute to the achievement of positive business results. A basic belief in our corporate culture is that talent is not connected with origin, race, sexual orientation, abilities, beliefs, generations and experiences. The working environment in the Bank is based on mutual respect and acceptance, through which employees can develop their personal skills and abilities. Acceptance and diversification allow the Bank to strengthen its relations with its customers, partners, and the community in which it operates.

CORPORATE GOVERNANCE DECLARATION
TBI Bank EAD
31 December 2019

1. Corporate profile and structure

TBI Bank EAD is sole-owner joint-stock company, established in line with the regulations of the Republic of Bulgaria, which conducts its business in Bulgaria as well as abroad under a license obtained from the Bulgarian National Bank.

2. Capital structure

As of 31 December 2019, the share capital of the Bank amounts to BGN 81,600 thousand, with total amount of dematerialised shares of 81,600,000 (eighty-one million and six hundred thousand), each with nominal value of BGN 1. The Bank has the right to issue only ordinary shares, each of which gives the owner the right of 1 vote in the general shareholders meeting. As of 31 December 2019, the sole owner of the share capital of the Bank is TBIF Financial Services B.V., the Netherlands. The ultimate parent company of the Bank is Tirona Limited, Cyprus.

3. Rights and obligations of the shareholders

The shareholder owns all rights and obligations set by the Bulgarian law regulations, other legislation and the Bank's articles of association.

4. Organizational structure of the Bank

TBI Bank EAD has two-tier governance structure. All members of the supervisory and management boards of the Bank meet the requirements of the Law on Credit Institutions as well as Ordinance 20 of the Bulgarian National Bank.

The Bank's structure consists of:

- general meeting of the shareholders;
- supervisory board ("SB");
- management board ("MB");
- other structure units, set by the general meeting of the shareholder, the supervisory board or the management board

The sole shareholder is the supreme governing body of the Bank, which makes the fundamental decisions concerning the existence and operations of the Bank.

The annual general meeting of the shareholders takes place up no later than 6 (six) months after the closing of the financial year, unless otherwise provided for by law. The management board of the Bank convenes an extraordinary general meeting of the shareholders if:

- the share capital of the Bank falls below the regulatory limit;
- this is requested by the sole shareholder;
- this is requested by any other person, authorized by law;

The sole shareholder has the right to:

- change or supplement the articles of association of the Bank;
- increase or decrease the share capital;
- decide on any merger, demerger, transformation or closure of the Bank;
- appoint or dismiss the members of the supervisory board and establishe their remuneration;
- appoint or dismiss the auditor of the Bank and sets its remuneration;

- approve the financial statements of the Bank and decide on profit distribution;
- discharge the members of the supervisory and management boards;
- decide regarding claims against members of the SB or MB, or the shareholder of the Bank;
- decide regarding the issuance of bonds;
- appoint the liquidators if the Bank faces closure, except in case of bankruptcy;
- decide regarding any other questions within the powers of the general meeting of shareholders set by the law.

The supervisory board exercises control over the main activity of the Bank and the management board. The supervisory board sets high corporate culture and business ethics with established ethical norms and corporate values for business behaviour. The supervisory board elects and dismisses the members of the management board in line with the principles of continuity of its work.

The main functions of the supervisory board are:

- to perform supervisory functions and to represent the Bank in its relationship with the management board;
- to set the main targets regarding the operations of the Bank and to set the strategy for their achievement;
- to approve the decisions of the management board, which are within the responsibility of the supervisory board in line with the articles of association of the Bank, the regulations for the activity of the supervisory board and the law.

The supervisory board consists of at least 3 (three) and no more than 7 (seven) members. The members of the supervisory board are appointed and dismissed by the general meeting of the shareholders. The members of the supervisory board are elected for a term of 5 (five) years. The supervisory board of TBI Bank EAD is comprised of people with the proper qualification and professional experience, in compliance with the Bank's operations and the main risks which it faces.

The members of supervisory board bear joint and individual liability by law for each damage, caused by violating the requirements of the law or of the articles of association of the Bank, or due to non-performance of their obligations. The members of the supervisory board are obliged to work objectively, critically and independently, while avoiding conflicts of interest and when it is not possible, disclosing the latter promptly.

The members of the supervisory board elect the chairperson of the supervisory board who organizes the work of the board. The members of the supervisory board may also elect a deputy chairperson of the supervisory board replacing the chairperson if he/she is absent.

The management board manages the daily operations of the Bank in accordance with the strategy and the basic principles of activity established by the supervisory board and oversees the daily activities of the employees of the Bank.

1. The management board is authorized to decide on all matters related to the operations of the Bank and to perform transactions independently within its powers under the law, the Bank's articales of association and rules of procedure of the management board, as approved by the supervisory board.
2. The management board establishes the risk policy and sets up risk management and internal control systems.
3. The management board provides guidance, approves and oversees the implementation of the company's business plan, material transactions and other activities set out in the Bank's strategy.
4. The management board reports to the supervisory board and the general meeting of the shareholders. The management board shall submit to the supervisory board at least once every 3 (three) months a report on the business activity and position of the Bank and shall immediately inform the supervisory board of any significant deterioration of the financial position of the Bank and other important circumstances regarding the economic activities of the Bank.

Management board members are elected by the supervisory board for a term of office of five (5) years. The management board consists of at least three (3) members but not more than seven (7) members. At least 2 (two) members of the management board shall be the executive directors (executive members), and the Bank shall only be represented by two executive directors jointly.

The members of the management board, with the approval of the supervisory board, shall elect among themselves the executive directors, chairperson of the management board and/or deputy chairperson of the management board, standing in for the chairperson when he/she is absent. Executive directors may only be individuals who have received appropriate prior approval from the Bulgarian National Bank to manage and represent the Bank under the terms provided for in effective legislation. The management board members are established professionals with proven leadership qualities, and represent a main prerequisite for meeting the Bank's objectives.

Management board members must avoid actions that will or may create a conflict of interests with the Bank. In the event that such a conflict arises, they should disclose it and should not participate in the discussion and decision making process.

Committees and commissions:

- As an institution of public interest, according to the Law on Independent Financial Audit, the Bank operates an **audit committee**, which is responsible for the monitoring of financial reporting and the independent financial audit as well as the effectiveness of the internal audit function and control systems and risk management at the Bank. The committee recommends the choice of registered auditors to conduct an independent audit of the Bank and monitors their independence in accordance with the law and the Code of Ethics for Professional Accountants. As at the date of the preparation of the financial statements, the jointly appointed auditors have an engagement, approved by the Audit Committee, for agreed-upon procedures in accordance with the requirements of the Ordinance 10 of the Bulgarian National Bank on the Internal Control in Banks. The purpose of the audit committee is to assist and advise the general meeting of the shareholders in its oversight of the activities of the Bank. The main functions of the audit committee are: monitoring the financial reporting processes of the Bank; monitoring the effectiveness of internal supervision systems and risk management systems; independent financial audit of the Bank.
- **Impairment committee** – the body that decides on the classification and provisioning of the Bank's risk exposures.
- **Lending committee** is the body that is empowered to approve the origination of risk exposures to corporate customers. Credit exposures based on preset limits are subject to subsequent approval by the management board and/or must be confirmed by the supervisory board.
- The **assets and liabilities management committee** is responsible for the overall operation of the balance sheet of the Bank and monitors interest rates and liquidity in accordance with its competence and the organizational structure referred to in the internal rules of the institution.
- A specific unit is **responsible for the prevention of money laundering and financing of terrorism** and the management of the related compliance risk.
- The specialized **unit for safe working conditions** is responsible for the compliance with the statutory requirements in this area.
- **Retail banking committee** – responsible for the coordination of activities related to the service provision to individuals, who are Bank's customers, and particularly for the development of a product range, initiating various campaigns and calibration of risk appetite.
- **Tender committee** – authorized to take decisions related to the choice of suppliers and renewal of supplier contracts based on the tenders made.

5. Audit and internal control

The Bank establishes and improves a reliable and comprehensive internal control framework, which includes control functions with the necessary powers, and access for independent execution of the structural and supporting supervising/controlling units' obligations. The processes, procedures and requirements on risk management are structured in accordance with the "three lines of defence". The control functions are independent from the operational business units, which they supervise and control. They are also organisationally independent from each other due to their different functions.

The financial auditors are elected by the general meeting of the shareholders. The financial auditors perform an independent financial audit, the purpose of which is to express an independent audit opinion as to the true and fair presentation in all material respects in the financial statements of the financial position, financial result, cash flows and equity of the Bank. The financial auditors are audit firms independent from the Bank.

6. Information systems

The Bank is dependent on complex information systems, and a possible crash, ineffectiveness or failure of these systems may have significant unfavourable impact on the Bank.

Information systems in general are exposed to multiple problems, such as computer viruses corruption, hacker attacks, software and hardware malfunctions. Each deficiency, interruption and security violation of these systems might lead to problems or interruptions in customer relations, risk management, book-keeping and deposits and loans servicing. In case of an interruption in the normal functioning of the information systems of the Bank, even for short period of time, the Bank may possibly become incapable for a certain time to provide service and thus lose its customers. Temporary interruption of the functioning of the information systems may also result in extraordinary expenses for recovery and confirmation of the information. Furthermore, any failure of the Bank to update and develop the existing information systems as effectively as its competitors, might lead to loss of its market share. Although the Bank's management believes that an adequate security program and a business continuity plan are in place, including fully equipped information centre duplicate, there is no certainty that they will be sufficient to prevent problems, such as the above-mentioned, nor do they guarantee that Bank's operations will not be significantly interrupted.

Each of the above-mentioned or other problems, related to the information systems of the Bank, might have significant adverse impact on the Bank activities, its performance and financial position.

7. Remuneration policy

The Bank's remuneration principles are structured in such a way, so as to contribute to sensible corporate governance and risk management. TBI Bank EAD applies a Remuneration Policy in accordance with the Credit Institutions Act and BNB Ordinance 4 on the requirements on the remuneration in banks, which is consistent with the business strategy, objectives, values and long-term interests of the Bank, by encouraging reliable and effective risk management, and it does not incentivise risk-taking behaviour, exceeding the levels acceptable for the Bank.

The main objective of the policy is the attraction and retention of highly qualified personnel, its motivation for high performance combined with moderate risk levels and in accordance with the long-term interests of the Bank and its shareholders. It is based on the principles of transparency, conflict of interest prevention, equal treatment of employees, documentation, objectivity, and reliable risk management.

The policy establishes the main principles for forming of remuneration – fixed and variable, in accordance with the objective of the Bank to stick to an optimal proportion between fixed and variable remuneration at sufficiently high share of the fixed one and depending on personnel categories, so as to ensure higher flexibility to the variable one, including possibility for non-payment. Upon the definition of the remuneration not only the financial results, but the ethical norms and corporate values underlying the Bank's Code of Ethics, as well as the reliability and efficiency of risk management are taken into account.

8. Disclosure of information

Transparency and timely disclosure of information is a key principle in corporate governance. The Bank maintains a system of disclosure of information in accordance with effective regulations, which is aimed at providing timely, accurate and understandable information about significant events, allows for objective and informed decisions, and ensures equal access to information and does not tolerate abuses of inside information. In disclosing information, the Bank is guided by the principles of accuracy, accessibility, equality, timeliness, integrity and regularity.

The Bank's website provides information on:
- data about the activities and history of the Bank;
- data on the shareholder structure;
- data on the management bodies and structure of the Bank;
- financial statements for the last 3 financial years at the least;
- information on upcoming events and initiatives;
- other important information, related to the Bank's activities.

9. Stakeholders

TBI Bank EAD applies a policy for provision of information to interested stakeholders. These include persons who are not shareholders but have an interest in the economic development of the Bank, such as creditors, customers, employees, society in general, etc.

10. Information on compliance in substance with the corporate governance code approved by the deputy chairperson of the financial supervision commission in art. 10n, paragraph 8 of the Public Offering of Securities ACT

TBI Bank EAD is not a public company and has no legal obligation to apply the provisions of the National Code of Corporate Governance ("NCGC") approved by the deputy chairperson of the Bulgarian Stock Exchange – Sofia. However, the corporate governance policy of TBI Bank EAD is based on professional and transparent governance in accordance with internationally recognised standards, good banking practice and where appropriate with the principles underlying the NCGC. Since the Bank is a sole-owner joint-stock company, the requirements on the protection of shareholders' rights, publishing and disclosure of information concerning the shareholders are not applicable.

The corporate governance policy of TBI Bank EAD (the "Policy") is the overall document containing the recognised standards of good and responsible governance and setting the rules, criteria and mechanisms for the corporate governance function of the Bank.

The principles are established in the following internal documents of the Bank:
- articles of association of TBI Bank EAD;
- corporate governance policy;
- organizational structure;
- code of Ethics of the administrators and employees of TBI Bank EAD;
- remuneration policy.

The objective of the policy is to regulate the corporate governance process as one of the key business functions and to outline the fundamental principles and requirements for maintaining and improving the organization and governance methods of TBI Bank EAD. The policy also aims to structure the basic components, functions and responsibilities comprising the corporate governance system of the Bank. Its implementation contributes to the objectives and plans that are in the interest of the Bank as a whole, its customers, shareholders, creditors, stakeholders in the country and abroad, and to facilitate the control over the efficient use of resources.

The policy defines the general principles and mechanisms of corporate governance of the Bank, such as:

- standardisation and harmonization of the corporate governance process;
- identification of **key business objectives within the "Planning and reporting"** business line.

As part of the objectives set, the Bank's management board determines key performance indicators such as growth, return on equity, provisions level, market share etc., providing a basis for the development of concrete business plans, and for the governance bodies – a possibility to control these plans in accordance with the Policy.

11. Internal control

Internal control includes the following components:

- control environment – a description of the control environment can be found in the "Audit and internal control" section of the Corporate governance declaration.
- risk assessment process – a description of the control risk assessment of the Bank can be found in the "Audit and internal control" section of the Corporate governance declaration as well as in the "Liquidity and risks" section of the Annual management report;
- information system, including the related business processes relevant to financial reporting and communication – a description of the information system of the Bank can be found in the **"Information systems"** section of the Corporate governance declaration;
- control activities – a description of the control activities of the Bank can be found in the "Audit and internal control" section of the Corporate governance declaration as well as in the "Liquidity and risks" section of the Annual management report;
- current monitoring of controls – a description of the current monitoring and control of the Bank can be found in the "Audit and internal control" section of the Corporate governance declaration as well as in the "Liquidity and risks" section of the Annual management report.

Valentin Galabov
(executive director and
management board member)

Alexander Dimitrov
(executive director and
management board member)

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Independent auditors' report

To the shareholder of

TBI Bank EAD

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of TBI Bank AD and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Translation in English of the official Auditor's report issued in Bulgarian.

Emphasis of matter

We draw attention to Note 32 Events after the reporting date to the consolidated financial statements which discloses significant non-adjusting event related to coronavirus pandemic (COVID-19). The disruption of the normal economic activity in Bulgaria following COVID-19 may affect adversely the operations of the Group, in particular, its credit activity and the quality of its credit portfolio. Due to the unpredictable dynamic of COVID-19, it is not practicable to provide a reliable estimate of the potential effects of the pandemic. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers under the requirements of IFRS 9	
The Bank's disclosures about impairment of loans and advances to customers are included in Note 14 "Loans to clients", Note 16 "Impairment provisions" and Note 2A "Credit risk" to the consolidated financial statements.	
Loans to clients represent a significant part (69%) from the total assets of the Group as at 31 December 2019 with aggregate gross value of BGN 706,940 thousand and accumulated loss allowance of BGN 81,191 thousand. The Group applies an impairment model based on expected credit loss (ECL) estimation as	In this area, our audit procedures included, amongst others: • Obtaining understanding and performed walk throughs of the Group's established processes and controls over the monitoring and assessment for impairment of loans to corporate and retail

per the requirements of IFRS 9 "Financial instruments". The application of such impairment model has led to increased complexity and degree of management judgment in the ECL estimations as disclosed in Note 2A "Credit risk". The key inputs in the model relate to developing significant increase of credit risk (SICR) criteria for staging of loans and advances to customers (Stage 1: Exposures with no SICR, Stage 2: Exposures with SICR but no objective evidence for impairment and Stage 3: Exposures with objective evidence for impairment), determining the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD), imputing forward looking information (FLI) of macro-economic factors considering multiple scenarios in ECLs estimations. Higher degree of estimation uncertainty is involved in calculating the ECLs for the portfolio of loans to clients in Stage 1, Stage 2 and Stage 3 portfolio assessed for impairment collectively in view of the availability of historical data for back testing and calibrating the PD and LGD estimates. Further to this, significant management judgement is also required in calculating the ECLs for loans to clients which are assessed for impairment individually due to inherent estimation uncertainty in determining the timing and amount of the expected cash flows, as well as the value of the respective collaterals. Due to the significance of the loans and advances to customers, the high estimation uncertainty, complexity and management judgement involved in ECL calculations under the impairment model applied as per the requirements of IFRS 9, this is considered a key audit matter.	customers in relation to the requirements of IFRS 9. • Assessing the internal controls on the entity level in relation of the use and application of the impairment models including the documentation as well as the frequency of updating and reasonability of the FLI parameters. • Gaining understanding and walk-through of the identified controls of the Group in relation to the monitoring and impairment of loans of corporate and retail clients under the requirements of IFRS 9. • Performing tests of the design and operating effectiveness of the controls over the monitoring and assessment for impairment of loans to corporate and retail customers in relation to the requirements of IFRS 9. We involved our IT specialists to assess and test the IT general controls over the Group's system for loan monitoring used for IFRS 9 purposes. • We performed analytical procedures on a disaggregated detailed data to evaluate if the trends in the impairment expense and allowance follow the development of the loan portfolios. • We assessed for a sample of loans whether those were correctly distributed to the respective stage for impairment under the SICR criteria used by the Group under IFRS 9 requirements as of 31 December 2019. • For a risk-based sample of corporate loans to clients that

	were subject to an individual impairment assessment and focusing on those with the most significant potential impact on the consolidated financial statements, we specifically assessed the Group's assumptions on the expected future cash flows, including the realizable value of collateral based on our own understanding and available market information. • We performed subsequent events procedures focused on the development of the sampled loans from the Corporate portfolio post balance sheet date to assess the Bank's assumptions on the expected future cash flows. • For the retail loans we evaluated the impairment model applied by the for the calculation of collective impairment losses. We focused on assessing the reasonableness of the PD and LGD calculations by examining support for the key assumption used and data sources. We also analysed whether the FLI has been correlated and considered in the collective impairment model. In addition, we tested the mathematical accuracy of the collective ECL calculations. • We reviewed the performed by management back-testing analysis on the retail loan portfolio for the purpose of assessing whether the collective impairment loss estimate appeared reasonable. • We assessed the relevance and adequacy of the financial statement disclosures for the

	impairment of corporate and retail loans to customers under the requirements of IFRS 9.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the consolidated management report, including the corporate governance statement and the consolidated non-financial declaration prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

We are jointly and severally responsible for the performance of our audit and for the expressed by us audit opinion as per the requirements of the IFAA applicable in Bulgaria. In accepting and executing the joint audit engagement, in connection with which we report hereby, we also have followed the Guidance on Performing a Joint Audit issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Consolidated Financial Statements and Auditor's Report Thereon* section, in relation to the consolidated management report, including the corporate governance statement of the Group and the consolidated non-financial declaration, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines on New and Expanded Auditor's Reports and Auditor's Communication of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act applicable in Bulgaria.

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

Based on the procedures performed, our opinion is that:

a) The information included in the consolidated management report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
b) The consolidated management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
c) The corporate governance statement of the Group referring to the financial year for which the consolidated financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.
d) The consolidated non-financial declaration referring to the financial year for which the consolidated financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- Ernst & Young Audit OOD and AFA OOD were appointed as statutory auditors of the consolidated financial statements of TBI Bank EAD for the year ended 31 December 2019 by the general meeting of shareholders held on 9 October 2019 for a period of one year.
- The audit of the consolidated financial statements of the Bank for the year ended 31 December 2019 represents the fourth total uninterrupted statutory audit engagement for that entity carried out by Ernst & Young Audit OOD and the third total uninterrupted statutory audit engagement for that entity carried by AFA OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the audit committee of TBI Bank EAD, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.

Audit Firm Ernst & Young Audit OOD:	Audit Firm AFA OOD:
Milka Natcheva-Ivanova	Valia Iordanova
Legal Representative and	Legal Representative and
Registered Auditor in charge of the audit	Registered Auditor in charge of the audit

Sofia, Bulgaria

29 April 2020

Translation in English of the official Auditor's report issued in Bulgarian.

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated

Consolidated statement of comprehensive income
for the year ended 31 December

	Notes	2019	2018
Interest income using the EIR method	4	176,793	147,021
Interest expense using the EIR method	4	(7,536)	(5,821)
Net interest income		**169,257**	**141,200**
Fee and commission income	5	36,911	31,631
Fee and commission expense	5	(16,288)	(12,215)
Net fee and commission income		**20,623**	**19,416**
Net losses on trading operations	6	(1,378)	(1,622)
Other operating (expenses)/income, net	7	(4,024)	1,232
Net operating income before impairment		**184,478**	**160,226**
Loss on impairment of financial assets	16	(30,584)	(43,563)
Loss on impairment of other assets	18	(711)	(8)
Net operating income		**153,183**	**116,655**
Personnel expenses	8	(60,426)	(51,516)
Depreciation / amortisation expenses	19, 20	(5,322)	(2,307)
Administrative and other expenses	9	(36,235)	(30,089)
Total administrative expenses		**(101,983)**	**(83,912)**
Profit before tax	10	**51,200**	**32,743**
Income tax expense	10	(6,468)	(4,419)
Profit for the year		**44,732**	**28,324**
Attributable to:			
The owners of the parent		*44,732*	*28,324*
Non-controlling interest		-	-
		44,732	*28,324*

(continued on the following page)

Notes 1 to 32 form part of, and should be read in conjunction with, these consolidated financial statements.

Financial statements on which an auditors' report is issued dated: 29 April 2020.

Audit firm „Ernst & Young Audit" OOD

Audit firm „AFA" OOD

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated

Consolidated statement of comprehensive income (continued)

for the year ended 31 December

	Notes	2019	2018
Profit for the year		**44,732**	**28,324**
Other components of comprehensive income			
Components to be reclassified to the profit or loss:			
Foreign exchange differences from translation of the financial statements of foreign operations		(194)	86
Net loss on financial assets at fair value through other comprehensive income		830	(869)
Current income tax relating to unrealised gains on financial assets at fair value through other comprehensive income		(74)	103
Components not to be reclassified to the profit or loss:			
Net loss on financial assets at fair value through other comprehensive income		(6,858)	(200)
Current income tax relating to unrealised gains on financial at fair value through other comprehensive income		268	20
Other comprehensive income for the year	28	**(6,028)**	**(860)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**38,704**	**27,464**
Attributable to:			
The owners of the parent		*38,704*	*27,464*
Non-controlling interest		-	-
		38,704	*27,464*

Valentin Galabov
(executive director and
member of the management board)

Alexander Dimitrov
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Yordan Stoyanov
(preparer)

The consolidated financial statement were approved for issue by the management board on 28 April 2020.

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Financial statements on which an auditors' report is issued dated: 29 April 2020.

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TBIBank

Consolidated statement of financial position
as at 31 December

	Notes	2019	2018
ASSETS			
Cash on hand and balances with central banks	11	97,658	120,564
Placements with other banks	12	12,879	17,120
Derivatives	2b	745	306
Financial assets at fair value through other comprehensive income	13	111,625	66,377
Loans to customers	14	625,749	514,641
Finance leases	15	11,201	16,859
Other assets	21	11,046	9,054
Current tax assets	10	248	2,035
Assets acquired from foreclosure on collateral	18	8,225	10,103
Intangible assets	19	10,833	6,449
Property and equipment	20	18,263	11,493
Deferred tax assets	10	775	515
Total assets		**909,247**	**775,516**
LIABILITIES			
Derivatives	2b	1,321	136
Due to banks	22	25,507	5,033
Due to customers	23	608,990	529,933
Other borrowings	24	5,856	112
Current tax liabilities	10	402	1,198
Deferred tax liabilities	10	-	114
Other liabilities	25	41,634	33,192
Total liabilities		**683,710**	**569,718**
EQUITY			
Share capital	28	81,600	81,600
Statutory reserves	28	8,392	8,392
Revaluation reserve	28	(6,549)	(715)
Reserve from translation of financial statements of foreign operations	28	(1,004)	(810)
Retained earnings		143,098	117,331
Equity attributable to the owners of the parent		**225,537**	**205,798**
Non-controlling interest		-	-
Total equity		**225,537**	**205,798**
Total equity and liabilities		**909,247**	**775,516**

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

	Share capital (Note 28)	Statutory reserves (Note 28)	Revaluation reserve (Note 28)	Reserve from foreign currency translation (Note 28)	Retained earnings	Attributable to the owners of the parent company
At 1 January 2018	**81,600**	**8,392**	**231**	**(896)**	**94,815**	**184,142**
Effect of first-time adoption of IFRS 9	-	-	-	-	(5,808)	**(5,808)**
At 1 January 2018 restated	**81,600**	**8,392**	**231**	**(896)**	**89,007**	**178,334**
Profit for the year	-	-	-	-	28,324	**28,324**
Other comprehensive income, net of tax	-	-	(946)	86	-	**(860)**
Total comprehensive income for the year	-	-	(946)	86	28,324	**27,464**
At 31 December 2018	**81,600**	**8,392**	**(715)**	**(810)**	**117,331**	**205,798**
At 1 January 2019	**81,600**	**8,392**	**(715)**	**(810)**	**117,331**	**205,798**
Effect of first-time adoption of IFRS 16	-	-	-	-	(63)	**(63)**
At 1 January 2019 restated	**81,600**	**8,392**	**(715)**	**(810)**	**117,268**	**205,735**
Profit for the year	-	-	-	-	44,732	**44,732**
Other comprehensive income, net of tax	-	-	(5,834)	(194)	-	**(6,028)**
Total comprehensive income for the year	-	-	(5,834)	(194)	44,732	**38,704**
Acquisition of 4Finance EOOD	-	-	-	-	(3,255)	**(3,255)**
Dividends paid	-	-	-	-	(15,647)	**(15,647)**
At 1 December 2019	**81,600**	**8,392**	**(6,549)**	**(1,004)**	**143,098**	**225,537**

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Financial statements on which an auditors' report is issued dated: 29 April 2020.

Audit firm „Ernst & Young Audit" OOD

Audit firm „AFA" OOD

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated

Consolidated statement of cash flows

For the year ended 31 December

	Notes	2019	2018
Cash flows from operating activities			
Profit for the year		44,732	28,324
Adjustments:			
Income tax expense accrued	10	6,468	4,419
Impairment of financial assets	16	30,584	43,563
Impairment of property and equipment, and intangible assets	19,20	2,621	2,307
Impairment of right-of-use assets	20	2,701	-
Impairment of assets acquired from foreclosure on collateral	18	711	-
Net loss of derecognition of other assets	7	1,263	-
Provisions	7	1,121	-
Accruals on short-term employee benefits	25	5,395	5,585
Unrealized (gains)/losses from foreign exchange revaluation		(194)	86
Cash flows from in operating activities before changes in operating assets and liabilities		**95,402**	**84,284**
Changes in operating assets and liabilities, net			
Increase in the statutory reserves with central banks	11	(6,464)	(6,600)
Decrease in loans to banks > 3 months	12	118	371
Increase in loans to customers	14	(135,707)	(120,327)
Decrease in finance leases	15	4,704	6,648
Increase in financial assets at fair value through OCI	13	(51,168)	(40,969)
Decrease in assets acquired from foreclosure on collateral	18	1,167	4,455
Decrease/(increase) in derivatives	2b	746	(384)
Increase in other assets	21	(2,195)	(2,586)
Increase in due to banks	22	20,474	5,033
Increase in due to customers	23	79,057	27,020
(Increase)/decrease of other liabilities	25	(1,848)	(3,102)
Income tax paid	10	(4,459)	(4,622)
Net cash flows used in operating activities		**(173)**	**(50,779)**

(continued on the following page)

The notes on pages 1 to 32 form an integral part to the accompanying consolidated financial statements.

Financial statements on which an auditors' report is issued dated: 29 April 2020.

Audit firm „Ernst & Young Audit" OOD

Audit firm „AFA" OOD

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated

Consolidated statement of cash flows (continued)

For the year ended 31 December

	Notes	2019	2018
Cash flows from investing activities			
Net payments related to the acquisition of subsidiaries		(4,114)	-
Purchase of intangible assets	19	(5,572)	(3,942)
Purchase of property and equipment	20	(3,096)	(1,291)
Net cash flows used in investing activities		**(12,782)**	**(5,233)**
Cash flows from financing activities			
Payments made on other borrowings	24, 29	(2,058)	(390)
Payments made on lease contracts	24, 29	(2,833)	-
Dividends paid		(15,647)	-
Net cash flows used in financing activities		**(20,538)**	**(390)**
Net decrease in cash and cash equivalents		**(33,493)**	**(56,402)**
Cash and cash equivalents on 1 January	29	77,721	134,123
Cash and cash equivalents on 31 December	29	**44,228**	**77,721**
Cash flows related to interest and dividends			
Interest paid		(6,157)	(3,106)
Interest received		185,200	146,457
Dividends paid		(15,647)	-

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Financial statements on which an auditors' report is issued dated: 29 April 2020.

Audit firm „Ernst & Young Audit" OOD

Audit firm „AFA" OOD

Notes to the consolidated financial statements

1 General information and accounting policies

TBI Bank EAD (the "Bank") was incorporated on 11 November 2002 as a joint-stock company with a two-tier governance system under the name West-East Bank AD with the following shareholders: Aktiva Holding B.V., Factor Banka d.d. and LB Maxima D.O.O. The Bank was registered at Sofia City Court as a joint-stock company on 28 August 2003, UIC 131134023, after receiving a licence from the Bulgarian National Bank allowing it to render banking services on 13 August 2003. It started its operations on 1 October 2003. In 2006, Nova Ljubljanska Banka d.d. consecutively acquired 97.01% of the share capital of the Bank: on 14 April 2006 - 72.51 %, and then on 28 December 2008 another 24.50 % of the capital. The name of the Bank was initially changed to NLB Banka West-East AD, and subsequently to NLB Banka Sofia AD. Until mid-2011 the Bank, still under the name of NLB Banka Sofia AD, was controlled by Nova Ljubljanska Banka d.d., which held 97.01% of its shares. The remaining 2.99% of the shares were held by Factor Banka d.d.

At the end of July 2011 TBIF Financial Services B.V., having its registered office in the Netherlands, acquired 100% (38,399,001 shares) of the Bank's capital. The legal form of the Bank was changed – from a joint-stock company it was transformed into a sole-owner joint-stock company. In October 2011 the Bank's capital was increased by BGN 8,001 thousand, and at the end of November 2011 the name of the Bank was changed to TBI Bank EAD. As at 31 December 2019, the Bank's capital amounted to BGN 81,600 thousand, distributed in 81,600,000 ordinary dematerialised shares with nominal value of BGN 1 each.

The Head office of the Bank was moved to a new registered office in September 2012, as follows: Sofia, 52-54, Dimitar Hadzhikotzev street. The operations of the Bank are carried out through the head office in Sofia and 193 offices and remote working stations. At the end of 2012 the Bank obtained a permit issued by the Bulgarian National Bank to open a branch in the Republic of Romania and launched the steps required for the coordination, technical and resource provisioning for the operations related to the upcoming start of the work of the branch. The branch launched its operations in 2013 with a focus on providing financing to individuals and legal entities.

The Bank is managed by management board under the supervision of a supervisory board. The management board at 31 December 2019 comprises five members with a mandate of up to five years, elected by the supervisory board. Four of the members are also executive directors and the Bank is represented jointly by either two of the executive directors. The supervisory board comprises at least three but not more than seven members with a mandate of up to five years. The persons charged with governance are represented by the audit committee (Ariel Hason, Inita Hane and Edgars Dupats) and the supervisory board (Ariel Hason, Kieran Donnelly and Gauthier Van Weddingen) of the Bank.

The parent of the Bank is Tirona Limited, Cyprus. The parent is looking for opportunities to invest in financial services, particularly banking, mortgage and consumer financing, asset management and investment advisory services in Central and Eastern Europe, and in some former CIS republics. Another related party to the Bank is 4Finance having its registered address in Latvia. The bonds of the latter are quoted on the Frankfurt Stock Exchange and Irish Stock Exchange.

As at 31 December 2019, the Bank holds the controlling interest of TBI Credit IFN S.A., with place of business and country of incorporation Romania; of TBI Leasing INF S.A., with place of business and country of incorporation Romania; and of 4Finance EOOD with place of business and country of incorporation Bulgaria, to all of which the Bank is a parent company.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

a Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its fully owned subsidiaries:

- TBI Credit IFN S.A., incorporated in the Republic of Romania on 11 January 2008;
- TBI Leasing INF S.A., incorporated in the Republic of Romania on 28 February 2002;
- 4Finance EOOD, incorporated in the Republic of Bulgaria on 22 January 2014 (Note 30).

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, by applying consistent accounting policies.

The subsidiaries are fully consolidated from the date of acquisition, which is the date on which control is transferred to the Bank, and continue to be consolidated until the date such control ceases. For the accounting treatment of transactions involving entities under common control, see Note 1y.

The following note presents the significant accounting policies according to which the financial statements have been prepared, to the extent they have not yet been disclosed in previous notes. These policies have been applied to all years presented, unless expressly state otherwise.

b Basis of preparation of the financial statements – statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRIC") as adopted by the European Union. Reporting framework "IFRS as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional provisions.

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

- financial assets at fair value through other comprehensive income;
- financial assets at fair value through profit and loss;
- loans measured at fair value through profit and loss;
- financial assets and liabilities held for sale (derivatives).

The Group presents its statement of financial position as a priority by degree of liquidity. An analysis of the asset recovery or settlement of liabilities within twelve months after the statement of financial position (current) and after a 12-month period after the statement of financial position (non-current) is presented in the notes to the financial statements.

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

c Changes in accounting policies and disclosures applicable to reporting periods ending 31 December 2019

Comparability of data

The accounting policies applied by the Bank are consistent with those applied during the preceding reporting period, except the following amendments, described in the following paragraphs.

Aiming at achieving a better presentation, the Bank's management judged as necessary and revised the previous period's presentation of certain items of the statement of comprehensive income. The revision relates to the following amounts and comparative information, namely:

- Reclassification of items that can be reclassified in profit or loss at the amount of BGN (180) thousand, net of taxes into items which will not be reclassified in the profit or loss.

IFRS 16 *Leases*

IFRS 16 was published in January 2016 and replaces IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease,* SIC-15 *Operating Leases—Incentives*, SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* IFRS 16 sets out the principles for recognition, measurement, presentation and disclosures of leases and requires lessees to account all lease contracts based on uniform balance method, that is similar to the accounting treatment of finance leases in accordance with IAS 17.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively and the cumulative effect of its adoption is recognized on the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group opted for using the modified retrospective method of adoption with the date of initial application of 1 January 2019.

The effect of adopting IFRS 16 as at 1 January 2019 (increase/(decrease)) is, as follows:

	BGN'000
Assets	
Right-of-use assets	6,834
Total assets	**6,834**
Liabilities	
Lease liabilities	6,897
Total liabilities	6,897
Total adjustment in equity:	
Retained earnings	(63)

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

c Changes in accounting policies and disclosures applicable to reporting periods ending 31 December 2019 (continued)

IFRS 16 *Leases* (continued)

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases for which it is the lessee, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. At the date of initial application, the Group applies a modified retrospective method, and the cumulative effect of its initial application is recognized at the date of initial application in retained earnings. The Group has recognized right-of-use assets and lease liabilities for those leases that were previously classified as operating leases, except for short-term leases and leases of low-value assets.The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relied on its assessment of whether leases are onerous immediately before the date of initial application;
- applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the above, as at 1 January 2019:

- right-of-use assets of BGN 6,834 thousand were recognised and presented as fixed assets and the amount of the lease assets recognised previously under finance leases, and included in the above-mentioned amount, is nil.
- additional lease liabilities of BGN 6,897 thousand (included in other borrowings) were recognised.
- the net effect of these adjustments has been adjusted to retained earnings of BGN 63 thousand.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

c Changes in accounting policies and disclosures applicable to reporting periods ending 31 December 2019 (continued)

IFRIC 23 ***Uncertainty over Income Tax Treatments***

The interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The amendments have no effect on the financial position or performance of the Group.

IFRS 9 ***Financial Instruments: Classification and Measurement (Amendments): Prepayment Features with Negative Compensation***

The amendments, effective for annual periods beginning on or after 1 January 2019 with earlier application permitted, propose a change to IFRS 9 for particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a negative prepayment feature. Specifically, for a financial asset that contains a prepayment option that may result in the payment of a reasonable negative compensation amount, the amendments require the financial asset to be measured at amortised cost or at fair value through other comprehensive income, subject to the assessment of the business model in which it is held. The amendments have no effect on the financial position or performance of the Group.

IAS 28 ***Investments in Associates (Amendments): Long-term Interests in Associates and Joint Ventures***

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. An entity applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments have no effect on the financial position or performance of the Group.

IAS 19 ***Employee Benefits (Amendments): Plan Amendment, Curtailment or Settlement***

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects the asset ceiling requirements. These amendments have not yet been adopted by the EU. The adoption of the amendments did not have an impact on the financial position or performance of the Group.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

c Changes in accounting policies and disclosures applicable to reporting periods ending 31 December 2019 (continued)

Annual Improvements to IFRSs 2015-2017 Cycle

In the 2015-2017 annual improvements cycle, the IASB issued amendments to standards which are effective for annual periods beginning on or after 1 January 2019. Summary of amendments and related standards are provided below:

- IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* – clarifying previously held interest in a joint operation;
- IAS 12 *Income taxes* – clarifying income tax consequences of payments on financial instruments classified as equity;
- IAS 23 *Borrowing costs* – clarifying borrowing costs eligible for capitalization.

The amendments have no effect on the financial position or performance of the Group.

d Standards issued but not yet effective and not early adopted

Standards issued but not yet effective and not early adopted up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to have an impact on disclosures, financial position or performance when applied for the first time. The Group intends to adopt those standards when they become effective.

IFRS 17 *Insurance Contracts*

The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU. It is not applicable for the Group.

IFRS 3 *Business combinations(Amendments): Definition of a business*

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the minimum requirements for a business and narrow the definition of a business. The amendments also remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive and introduce an optional fair value concentration test. These amendments have not yet been endorsed by the EU. The Group is in the process of assessing the impact of these amendments on its financial position or performance.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

d Standards issued but not yet effective and not early adopted (continued)

Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material'*

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. The amendments also specify that materiality will depend on the nature or magnitude of information. The Group is in the process of assessing the impact of these amendments on its financial position or performance.

The Conceptual Framework for Financial Reporting

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018, which is effective for annual periods beginning on or after 1 January 2020. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The main amendments introduced in the revised Conceptual framework for financial reporting are related to measurement, including factors, which should be considered when choosing measurement basis, and to presentation and disclosure, including income and expenses which should be classified in other comprehensive income. The Conceptual framework also provides updated definitions for asset and liability and criteria for their recognition in the financial statements. The Company is in the process of assessing the impact of these amendments on its financial position or performance.

Interest Rate Benchmark Reform – IFRS 9, IAS 39 and IFRS 7 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform. The amendments enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The Group is in the process of assessing the impact of these amendments on its financial position or performance.

Notes to the consolidated financial statements (continued)

e Foreign currency transactions

(a) Functional and presentation currency

The items included in the Group's financial statements are measured and presented in Bulgarian leva ("BGN"), which is the functional and presentation currency of the Group.

The Bulgarian lev is pegged to the EURO at an exchange rate BGN 1.95583 to EUR 1 as of 1 January 1999 under the provisions of the BNB Act of 1997.

(b) Transactions and balances

Foreign currency transactions are translated to the functional currency using the exchange rates valid on the dates of the transactions. Foreign currency gains and losses arising as a result of the settlement of such transactions, as well as translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates valid at the year-end, are recognised in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to the functional currency using the exchange rate as of the date of initial transaction (purchase).

As at 31 December 2019, monetary assets and liabilities denominated in foreign currencies were translated at the official exchange rate quoted by BNB on this date – BGN 1.95583 = EUR 1, BGN 1.74099 = USD 1 and BGN 0.408913 = RON 1 (31 December 2018: BGN 1.95583 = EUR 1, BGN 1.70815 = USD 1 and BGN 0.419391 = RON 1).

The Group's foreign operation assets and liabilities, through its branch and its subsidiaries in Romania, were translated into Bulgarian lev at the closing exchange rate quoted by BNB, valid for the new Romanian leu as at 31 December 2019. The foreign operation income and expenses were translated at the average exchange rate for the reporting period, which amounted to BGN 0.41218 for 2019 (2018: BGN 0.420239 – RON 1). The effects of the translation of the functional currency of the branch into the functional currency of the Group are recognised in the other comprehensive income.

f Interest income and interest expenses

Interest income and interest expenses are recognised in the statement of comprehensive income for all interest-bearing instruments measured at amortised cost, based on the accruals principal using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and allocating interest income or interest expense over the respective time period. The effective interest rate is the rate that discounts exactly the estimated future cash inflows or outflows throughout the expected lifetime of the financial instrument, or a shorter period, as appropriate, to the net carrying amount of the financial asset or financial liability.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

f Interest income and interest expenses (continued)

In calculating the effective interest rate the Group makes an estimate of the cash flows taking into account all contractual terms and conditions of the financial instrument (such as, early payment options), excluding any future loan losses. The calculation includes all fees, paid or received between the parties under the contract, which form an integral part of the effective interest rate, the transaction costs and any other premiums or discounts.

The fees on the unabsorbed portion of loans are deferred (together with the related direct costs) and are recognised as an adjustment to the effective interest rate on the respective loans.

Where credits are identified as impaired, the interest income on them is recognised using the effective interest method on the net book value of the instrument, i.e. after deduction of loss adjustment expense. Interest income and respectively, interest expense, on securities and other discount instruments includes not only the agreed interest but also amortisation of premiums or discounts thereon.

g Fee and commission income and expenses

Fees and commissions are recognised based on the accruals principle upon the rendering of the service. Fee and commission income comprise mainly money agent's commissions, transfer fees in Bulgarian leva and foreign currency, and treasury transactions, and are recognised under the accruals principle or on the transfer date, as appropriate.

The Group has identified the following 4 performance obligations under IFRS 15:

- Transaction-related services – revenue is recognised in a certain point in time since the customer simultaneously receives and consumes the benefits due to the short-term period of performance of the service. The fees for these services are determined according to the Group's Tariff and represent a fixed amount per transaction that corresponds to the value of the benefit transferred to the customer. Considering these circumstances, the Group uses the practical expedience in IFRS 15, paragraph B16, to recognise revenue upon performing the transaction in an amount equal to that which it has the right to withhold in accordance with the Tariff.

- Issuance of guarantees and letters of credits – revenue is recognised in a certain point in time since the customer simultaneously receives and consumes the benefits. Benefits are transferred to the customer evenly over the duration of the contract and therefore, the Group applies a straight-line method to measure the progress of the contract leading to straight-line amortisation of fees for the agreed period. The fees for these services are fixed amounts calculated according to the value of the guarantee or letter of credit.

- Maintenance of deposits – revenue is recognised in a certain point in time since the customer simultaneously receives and consumes the benefits. The fees for these services are determined according to the Group's Tariff and represent a fixed monthly amount that reflects the value of the benefit transferred to the customer. Considering these circumstances, the Group uses the practical expedience in IFRS 15, paragraph B16, to recognise revenue upon performing the transaction in an amount equal to that is has the right to withhold in accordance with the Tariff. The Group used to recognise revenue under the accrual principle in IAS 18, which has led to recognition of revenue in the same way.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

g Fee and commission income and expenses (continued)

- Activities as an agent, for which the Bank receives agent's commissions - revenue is recognised in a certain point in time upon provision of the agent service since the Bank operates as an agent. Considering these circumstances, the Bank recognises revenue equal to the amount of the agent's commission due for the performance of the agent service. The commission fee is the net amount that is withheld by the Bank after paying the portion due to a third party to which the Bank mediates for the performance of services of that same third party.

h Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("OCI"), or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade (transaction) date, i.e., the date that the Group commits to purchase or sell the asset.

The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies under IFRS 15 in section g) Revenue from contracts with customers.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

h Financial assets (continued)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- financial assets at amortised cost (debt instruments);
- financial assets at fair value through other comprehensive income with recycling of cumulative gains and losses (debt instruments);
- financial assets designated at fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This is the category most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost is the amount at which an instrument is measured at initial recognition adjusted by the principal repayments and the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, calculated using the effective interest rate method and, for financial assets, adjusted for any loss allowance. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include placements with other banks, loans to customers and finance leases.

Financial assets at fair value through other comprehensive income with "recycling"

The Group measures debt instruments at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss. The Group's debt instruments at fair value through other comprehensive income includes investments in debt instruments listed on regulated markets.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

h Financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through other comprehensive income without "recycling"

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the income statement when the right of payment has been established, except when the Groupbenefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the income statement when the right of payment has been established.

This category also includes loans granted to customers at fair value through profit or loss (see Note 14).

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

h Financial assets (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e., removed from the Group's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

i Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For placements with other banks and debt instruments at fair value through other comprehensive income, the Group applies impairmen tbased on the counterparty's credit rating.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

i Impairment of financial assets (continued)

At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Company reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group's debt instruments at fair value through other comprehensive income consit solely of quoted bonds. It is the Group policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Group removes its risk exposures from the balance sheet depending on the type of the receivable, the number of days in delay of payments and the collateral coverage of the exposure.

Credit exposures in Corporate Banking segment are removed from the Group's balance sheet by decision of the Impairment Committee based on a specific and substantiated proposal by the SME Collection and Asset Management Department.

Credit exposures in Retail Banking are removed from the Group's balance sheet at a loan level, automatically, after they become more than 1,080 days past due, for the exposures extended in Bulgaria, 720 days for those extended in Romania, and 360 days for the exposures extended by 4Finance EOOD, and by foreign companies, part of the 4Finace Group, and are 100% impaired.

Proceeds from sale of loans and loans derecognised are reported in decrease of costs of credit risk impairment.

In certain circumstances renegotiation or modification of contractual cash flows of a financial asset may lead to derecognition of the existing financial asset. Accordingly, the date of modification is considered as the date of initial recognition of the financial asset when the impairment requirements apply to the modified financial asset.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

i Impairment of financial assets (continued)

If the contractual cash flows on a financial asset are renegotiated or otherwise modified, but the financial asset is not derecognised, it cannot be automatically considered that this financial asset has lower credit risk. The Group assesses whether there has been a significant increase in credit risk after initial recognition on the basis of reasonable and justified information available without making unnecessary costs or efforts. This includes both historical and forecast information and credit risk assessment for the expected lifetime of the financial asset, including information on the circumstances that has led to the modification. Evidence that the criteria for recognising expected credit losses over the lifetime of the instrument are no longer met may include up-to-date and timely data on the fulfillment of the payment obligation under the modified contractual terms.

j Financial liabilities

Classification, initial recognition and measurement

Financial liabilities that are neither derivative instruments, nor financial liabilities originating from contracts for transfer of financial assets, nor liabilities under financial guarantees or such that have not been designated upon initial recognition as at fair value through profit or loss, are classified and reported at amortised cost.

Initially, financial liabilities are recognised at fair value and in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Financial liabilities of the Group comprise trade and other payables, loans and borrowings, including bank overdrafts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

j Financial liabilities (continued)

Subsequent measurement (continued)

Financial liabilities at amortised cost (loans, borrowings and current trade payables)

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured by the Group at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the income statement.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 23 and Note 24.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

k Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and are carried at their net amount in the Group's balance sheet, if and only if there is legal right to offset the recognised amounts, and when there is an intention to settle them at maturity on net basis and the realisation of the asset and the settlement of the liabilities can be done simultaneously.

l Share capital

The share capital of the Group is the share capital of the Bank and is stated at the nominal amount of shares. Inherent costs directly relating to the issue of new shares or options, or to the acquisition of businesses, are taken to equity in decrease of proceeds, net of taxes.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

m Property and equipment

Equipment and other tangible assets are carried at historical cost less any depreciation and impairment. The historical cost includes expenses directly related to the acquisition of the tangible assets.

The subsequent costs are included in the carrying amount of a tangible asset or are recognised as a separate asset only when it is probable that the latter will bring future economic benefits to the Group and its cost can be measured reliably. All costs for current repair and maintenance are recognised in the statement of comprehensive income as incurred.

Depreciation is charged under the straight-line method over the useful life of the asset. At each balance sheet date the residual amount of the asset and its useful life are reviewed and adjusted as appropriate.

The annual depreciation rates are as follows:

Buildings	4 %
Equipment (computers and periphery)	25 %
Leasehold asset improvements	15 %
Other tangible assets	15 %

Assets that are subject to depreciation are reviewed for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable.

The carrying amount of the asset is written down to its recoverable amount if it is higher than the asset's estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less the costs to make the sale and the value in use.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from the disposals and the carrying amounts of the respective assets. These are included in profit or loss.

The depreciation rate adopted in respect of leasehold improvements is the lower of the useful life of the assets and the term of the lease contract.

n Intangible assets

Intangible assets comprise mainly software and are stated at historical cost less the accumulated amortisation and impairment. Amortisation is charged under the straight-line method over the useful life of the asset. At each date of financial statements the residual amount of the asset and its useful life are reviewed and adjusted as appropriate.

The annual amortisation rates are as follows:

Software	25 %
Other assets	25 %

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

o Assets acquired from foreclosure on collateral

The Group classifies properties acquired with loans as assets acquired from foreclosure on collateral. Their revaluation is based on an independent valuer's assessment. Assets acquired against debt are sold as quickly as is appropriate and sales revenue is recognised in other revenue net of the carrying amount of the asset sold. Assets acquired against debt are classified in a separate line in the statement of financial position. Initially, they are measured at acquisition cost. The cost of acquisition includes also other costs directly related to the acquisition of the asset. Subsequently, the assets acquired are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less costs necessary to make the sale. The estimate of net realisable value is based on the most objective evidence available at the time of the evaluation. A new estimate of the net realisable value is made for each subsequent reporting period. Where circumstances, which resulted in a reduction in the value of the asset below the acquisition cost, do no longer exist or where there is clear evidence of increase in net realisable value due to a change in the economic situation, the amount of the decrease is adjusted.

p Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and cash in bank accounts, held with central banks, cash in nostro accounts held with other banks, as well as deposits with banks with original maturity of less than three months. Cash and cash equivalents do not include encumbered assets.

q Income tax

Current income tax is calculated in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Tax Act and the Romanian tax legislation with respect to the income tax of the branch. The nominal tax rate applicable in Bulgaria in 2019 is 10% (2018: 10%), and the tax rate applicable in Romania is 16% (2018: 16%). Current tax for the reporting period is based on the taxable profit for the year at the tax rates in effect as at the balance sheet date. Tax expenses, other than income tax, are included in the other operating costs.

Deferred tax is provided using the liability method for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward tax loss, to the extent it is probable that they will reverse and that sufficient taxable profit will be available in the future or taxable temporary differences, against which such deductible differences can be utilised.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

q Income tax (continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset by the Group, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

r Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the liability, and the liability can be measured reliably.

s Share capital

The Bank's share capital is reported at the nominal value of the shares. Incremental costs, directly attributable to the issue of new shares or options, or the acquisition of business, are stated in the equity as a decrease in proceeds, net of tax.

t Leases

<u>Group as a lessee</u>

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date, an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Plant and machinery	4 years
Motor vehicles and other equipment	4 years

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

t Leases (continued)

Right-of-use assets (continued)

If ownership of the leased asset transfers to the Bank at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (aa) Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in- substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the company and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low- value assets are recognised as expense on a straight-line basis over the lease term.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

t Leases (continued)

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the income statement due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Accounting policies applied for leases before 1 January 2019

Group as a lessor

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at inception date. An arrangement is (or contains) a lease when the fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets). A reassessment is made as to whether an arrangement contains a lease after inception of the lease only if one of the following applies:

1. there is a change in contractual terms, other than a renewal or extension of the arrangement;
2. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
3. there is a change in the determination of whether fulfillment is dependent on a specified asset;
4. there is a substantial change to the asset.

Where reassessment is made and it is determined that the arrangement is (or contains) a lease, lease accounting shall commence (or cease) from:

- the date when the change in the circumstances gave rise to the reassessment for scenarios (1), (3) and (4) above;
- the date of renewal or extension of the period scenarion (2).

Operating lease

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred by the Group in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

t Leases (continued)

Finance leases

Lease contracts are classified as finance leases when the Group has transferred to the lessee all material risks and rewards associated with the leased assets. Receivables on finance leases are carried on the line item Loans to customers in the balance sheet. The Group applies its accounting policies for impairment of financial assets when finance lease contracts are impaired.

Group as a lessee

Payments made under operating leases are charged in equal portions to the statement of comprehensive income on a straight line basis.

u Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payment to reimburse the holder for a loss the holder incurs because a specified debtor fails to make payments when they fall due in accordance with the terms of the debt instrument. Such financial guarantees are issued to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other bank facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date of issuance of the guarantee. Following initial recognition the Group's liabilities related to such guarantees are measured at the higher of: *(a)* the initial measurement less the amortisation calculated for the purpose of recognising in the statement of comprehensive income the commission income earned on a straight-line basis throughout the lifetime of the guarantee and *(b)* the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are based on the experience with similar transactions and history of past losses, supplemented by the judgement of management.

Consequently, the liabilities of the Group under financial guarantees are stated at the higher of the amount initially recognised, reduced by the corresponding amortisation, and the provision that should be charged for the Group to cover its liabilities under the contract arising at the date of the financial statements. The expected credit losses relating to financial guarantees issued are recognised in the statement of comprehensive income in Impairment loss of financial assets. The likelihood of a payment obligation on the part of the Group under such contracts shall be assessed on the basis of historical experience with similar instruments by calculating a conversion factor.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

v Employee benefits

According to the local legislation the Group is obliged to make defined contributions to the state social security fund on behalf of the employee. All such payments / liabilities are recognised as an expense in the period they refer to.

Short-term employee benefits include salaries, interim and annual bonuses, social security contributions and annual compensated absences for current employees expected to be settled wholly within twelve months after the end of the reporting period. They are recognised as an employee benefit expense in the profit or loss or included in the cost of an asset when service is rendered to the Company and measured at the undiscounted amount of the expected cost of the benefit. Information on short-term employee benefits is disclosed in Note 8.

Retirement benefit is calculated in accordance with the local labour legislation applicable in each country in which the companies from the Group operate. Based on the calculations made, the total amount of retirement benefit provision of the Group is presented in Note 25.

w Dividends

Dividends are recognised as a liability when a decision is made by the sole owner of the equity to distribute dividends.

x Fiduciary assets in custody

The Group keeps assets on behalf of its customers and in its capacity as investment intermediary. These assets are not presented in the statement of financial position as they do not represent Group's assets.

y Business combinations and goodwill

Business combinations are reported using the acquisition method. The amount of the consideration paid is measured at fair value as at the acquisition date, and the value of the non-controlling interest in the acquiree. For each business combination the acquirer measures the non-controlling interest in the acquiree at fair value or at the proportionate share in the identifiable net assets of the acquiree. Costs related to the acquisition are taken to the profit or loss for the period.

When the Group acquires a business it assesses whether the financial assets and liabilities acquired are classified and presented appropriately in view of the contractual terms and conditions and the economic conditions, and the relevant circumstances at the acquisition date. This involves separation of any embedded derivatives from the host contracts of the acquiree.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

y Business combinations and goodwill (continued)

If a business combination is realised in stages, the fair value at the acquisition of interests held in the acquiree earlier are remeasured at fair value at the date of the acquisition through the profit or loss for the period.

Contingent consideration that should be transferred by the acquirer is recognised at the fair value at the acquisition date. Subsequent movements in the fair value of the contingent consideration, which is classified as an asset or a liability, are recognised in accordance with *IFRS 9 Financial instruments: Classification and Measurement.*

If the contingent consideration is classified as an equity instrument, it is not remeasured until it is ultimately settled within the equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Following initial recognition, goodwill is carried at cost less any accumulated impairment losses. For impairment testing goodwill acquired in a business combination is allocated, as of the acquisition date, to each of the cash generating units of the Group that are expected to benefit from the combination, regardless of whether other assets and liabilities of the acquiree have been allocated to these units or not.

When goodwill forms part of cash generating unit and some of the operations of this unit are disposed, the goodwill attributable to the disposed portion is included in the carrying amount of the operation in determining the gain or loss on its disposal. Goodwill disposed in this manner is measured based on the relative values of the disposed operation and the retained portion of the cash generating unit.

If the initial accounting for the business combination is not completed by the end of the reporting period during which the combination occurs because the fair values that have to be determined for the acquiree's identifiable assets acquired and liabilities taken over, or the amount of the consideration transferred, or the non-controlling interest can be determined only contingently, the Group reports the combination using these contingent assets and liabilities. The Group recognizes adjustments to these assets and liabilities as a result of the completion of the initial financial accounting within twelve months from the acquisition date and retrospectively from that date.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

y Business combinations and goodwill (continued)

In business combinations involving entities under common control the Group applies the pooling-of-interests method to account for these transactions. The carrying amounts of assets and liabilities of the acquired company are presented as part of the consolidated carrying amounts of assets and liabilities of the Group at each reporting date after the acquisition. The revenue and expenses of the acquired company are included in the consolidated revenue and expenses from the beginning of the reporting period in which the control is gained, and not from the moment the control is gained. The difference between the fair value of any consideration paid and the carrying amount of the acquired net assets is recognized directly in the consolidated net assets in retained earnings.

In 2019 the only transaction that can be considered a business combination involving entities under common control is the acquisition of 4Finance EOOD.

aa Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, an impairment test is done and then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognized in profit or loss for assets which have not been remeasured. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

ab General information

The Bank provides services as an investment intermediary in accordance with the provisions of the Public Offering of Securities Act ("POSA"). Being an investment intermediary, the Bank is obliged to comply with certain requirements for safeguarding the customers' interests in compliance with the Markets in Financial Instruments Act ("MFIA") and Ordinance 38, issued by the Financial Supervision Commission ("FSC"). The Bank has developed and implements organisation for the conclusion and implementation of the contracts with customers; observing the requirement for information from customers, as well as keeping of the corresponding accounts and preserving the customer's assets in compliance with the statutory legislation and in particular, the requirements of Ordinance 38, articles 28-31, and Ordinance 58, articles 1-10. The Bank has elaborated internal control rules and procedures in order to insure compliance with the above legislation.

Notes to the consolidated financial statements (continued)

2 Financial risk management

In performing its activities the Group is exposed to variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk, and operational risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise the potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor adherence to the risk limits by means of a reliable and up-to-date information system. The Group regularly reviews its risk management policies and systems to reflect in a timely manner changes in the markets, products and emerging best practice.

In September 2017, Methodology for Conducting an Internal Capital Adequacy Analysis ("ICAAP") and stress test of the exposure of TBI Bank EAD to risk and Methodology for conducting an internal liquidity adequacy analysis of TBI Bank EAD were elaborated, and in November 2018, the Group updated its rules for financial asset classification and impairment in accordance with the requirements of International Financial Reporting Standard 9 ("IFRS 9") and the Emergency Preparedness and Business Continuity Plan of TBI Bank EAD.

The risk control policy of the Group's management is aimed at ensuring compliance with the principles of hierarchy and centralization, and includes:

- risk management policy, risk measurement rules and methods, based on both statistical models and international best banking practices, as also on the historical experience of the Group;
- risk assessment by a specialized unit of the Group in accordance with the established rules, proposed for approval and resolution by the management board.

The supervisory board passes decisions on the measures to be taken by the Group with respect to its long-term risk management policy and strategy.

The process of risk management includes the following stages:

- risk identification – definition of its nature and description;
- risk measurement and assessment – methods to measure the risks and to ensure reliable outgoing data for risk measurement;

Risk management units are responsible for risk mitigation by employing methods based on the definition of acceptable risk levels with the aim being to limit any potential and probable losses, outsourcing, monitoring and other risk mitigation methods; and they

- coordinate the work of the departments related to analysis, assessment, supervision, management and control over risk;
- develop and implement an internal rating system for the customers of the Group;
- develop and implement approaches to meet the requirements of Basel III and the respective internal rules.

At present, the Group assesses the risk by applying the standardised risk assessment methods.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk

The Group is exposed to credit risk, which is the risk that counterparty will be unable to pay the amounts in full when they fall due. At the same time, significant changes in the economy or in the situation in a particular industry segment that represents a concentration in the Group's portfolio could result in losses other than the losses for which impairment ECL allowances are identified by the Group's management as at the balance sheet date. Management manages carefully the Group's exposure to credit risk.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of acceptable risk in relation to its exposure to one borrower or a group of borrowers, as also by geographical regions and industry segments. Such risks are monitored regularly and are subject to annual or more frequent review.

Loans to other banks and customers

In measuring the credit risk of loans to other banks and customers the Group considers the following components:

- international ratings awarded by recognised rating agencies;
- assessment of the financial position of the individual debtor;
- ability of the debtor to secure sufficient funds for regular repayment of its future payables to the Group;
- servicing of past liabilities of the debtor to the Group and/or to other institutions;
- type and amount of providing for the balance sheet and contingent liabilities of the customer.

The Group manages the credit risk on loans and advances to customers or banks through a comprehensive set of policies and procedures to ensure that all aspects of credit risk are adequately covered. Financial risk is assessed following detailed analysis of the financial statements of the borrower/guarantor, based on a system of creditworthiness indicators.

Market risk is assessed based on the economic characteristics/prospects of the relevant market and the competitive position of the proposed borrower.

Risk exposures are evaluated and classified based on the credit risk level, the period of delay of the amounts due, the analysis of the financial position of the debtor and the main sources for repayment of the debtor's liabilities. The assessment of the financial position includes qualitative and quantitative analyses taking into account all circumstances which may affect debt repayment according to the clauses of the loan agreement. Risk exposures on loans extended to individuals are measured and classified completely based on the defaults on any amounts due.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

In 2019, the Group's risk exposures were classified in three groups by applying the criteria for the levels of credit risk in IFRS 9, as follows:

- exposures in Phase 1
- exposures in Phase 2
- exposures in Phase 3

Phase 1 exposures classification

The following criteria will be met at the same time for exposures falling within the classification of Phase 1:

- exposures in arrears – up to 30 days past due;
- exposures with no proof of financial difficulties;
- exposures not defined as forborne.

Risk exposures on Phase 1 are exposures that are services regularly and information on the borrower's financial performance provide no grounds to assume that the borrower will not be able to pay off the liability in full.

Phase 2 exposures classification

The following criteria will be met at the same time for exposures falling within the classification of Phase 2:

- exposures in arrears – from 31 to 90 days;
- exposures with no proof of financial difficulties;
- exposures defined as forborne in accordance with Commission Implementing Regulation (EU) 2015/1278 of 9 July 2015 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions as regards instructions, templates and definitions. A forborne exposure is an exposure for which either of the following conditions is met:
  - that extension has not led the exposure to be classified as non-performing;
  - the exposure was not considered to be a non-performing exposure at the date the forbearance measures were extended.

On-balance sheet exposures that have occurred as a result of the implementation of off-balance sheet engagements (guarantees) are classified at least as exposures of Phase 2.

Phase 3 exposures classification

Risk exposures where there are significant weaknesses in their service or there is a serious deterioration in the financial situation of the borrower, which may cast doubts as to the full repayment of the liability.

All of the following criteria must be met for exposures falling within the classification of Phase 3:

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

- exposures that meet the recognition criteria of Phase 3, corresponding to the exiting initial mechanisms of impairment under FRS 9 that are considered to be causing a loss for the Group;
- all non-performing exposures (NPL) as per the definition of the Group – non-performed for more than 90 days after their maturity date;
- a material loan liability of the debtor to the Group has been past due for more than 90 days;
  - with respect to exposures to individuals – BGN 5 or their equivalent in other currency;
  - with respect to exposures to legal entities – BGN 100 or their equivalent in other currency;
- the baseline scenario shows that it is unlikely that the debtor will fully repay its loan liabilities to the Group without recourse to actions such as collateral foreclosure;

All forborne exposures that meet the conditions described herein below in any case should be classified as non-performing:

- they have an inappropriate repayment plan (both initial and subsequent) which includes, among other factors, repeated failure to comply with the repayment schedule, changes in the repayment schedule or a repayment schedule relying on expectations that are not supported by macroeconomic forecasts or realistic assumptions about the debtor's ability or willingness to pay;
- inclusion of contractual terms which postpone the term of the regular repayment instalments of the transaction in such a way as to conceal the assessment of an appropriate classification by providing a grace repayment period of the principal of 2 years or more;
- inclusion of write-offs exceeding the accumulated credit risk losses for non-performing exposures of a similar risk profile;
- additional forbearance measures are applied to a serviced forborne exposure within a probationary period, which has been reclassified outside the category of non-performing or defaulted for more than 30 days after maturity;
- the Group has filed a claim for declaring the debtor in bankruptcy, the debtor has been declared bankrupt or is in liquidation proceedings and there is a risk of unsatisfied creditors without probability of reorganisation.

Definition of "forborne exposures"

Forborne exposures are debt contracts in respect of which forbearance measures have been applied. Forbearance measures consist of concessions towards a debtor that is experiencing or about to experience difficulties in meeting its financial commitments.

Concessions provided by the Group enable the debtor experiencing financial difficulties to comply with its financial ommitments, otherwise, the debtor would not be able to comply them with.

Financial difficulties include:

- a counterparty has overdue exposure to the Group at the time of change;
- a counterparty is not currently in default but will not be able to fulfill the obligations in the foreseeable future without the change and will not be able to pay in full its obligation to the Group;

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

- a counterparty is not able to obtain funds from sources other than the existing banks at an effective interest rate equal to the current market interest rate for similar loans of a non-problematic contractor.

Criteria for discontinuing the classification as forborne exposure:

- the forborne exposure is considered to be performing, including where it has been reclassified from the non-performing exposures category after an analysis.
- The financial condition of the debtor showed that it no longer met the conditions to be considered as non-performing;
- a minimum two year probation period has passed from the date the forborne exposure was considered to be performing;
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period;
- none of the exposures to the debtor is more than 30 days past due at the end of the probation period.

In case of non-performing exposures with forbearance measures, those exposures shall be considered to have ceased being non-performing where all the following conditions are met:

- exposures are not considered as impaired or defaulted;
- one year has passed since the forbearance measures were applied;
- there is not, following the forbearance measures, any past-due amount or concern regarding the full repayment of the exposure according to the post-forbearance conditions. The absence of concerns shall be determined after an analysis of the debtor's financial situation by the institution. Concerns may be considered as no longer existing where the debtor has paid, via its regular payments in accordance with the post-forbearance conditions, a total equal to the amount that was previously past-due (where there were past-due amounts) or that has been written-off (where there were no past-due amounts) under the forbearance measures or the debtor has otherwise demonstrated its ability to comply with the post-forbearance conditions.
- The forborne exposures may be reclassified from non-performing exposures (Phase 3) to performing exposure (Phase 2) after an analysis of the financial condition of a borrower that has demonstrated that the criteria for classification of these exposures as non-performing are no longer met.

These specific conditions for exit from that Phase apply in addition to the criteria applied by reporting institutions for impaired and defaulted exposures in accordance with the applicable accounting framework and Article 178 of Regulation 575/2013, respectively.

For consumer loans, the conditions for exit from that Phase are in in accordance with the applicable accounting framework and Article 178 of Regulation 575/2013, respectively.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Risk mitigation and risk limit control policies

The Group manages limits and controls the concentration of credit risk in respect of counterparties, groups and industries in each particular case of risk identification.

The Group has set credit approval levels with the relevant approval units in order to manage credit risk. Depending on the loan amount applied for, the credits shall be referred to the appropriate level for approval. The Group assesses financial, market and business risks, and structures adequately the transactions. Credit risk is measured using a detailed analysis of the borrower's / guarantor's financial statements based on a system of indicators measuring their creditworthiness.

The exposure to each borrower, including banks and intermediaries, is further limited by: sub-limits covering on-balance sheet exposures and contingent liabilities and irrevocable commitments; limits on day-to-day risks relating to trading positions, such as forward contracts. Actual exposures to the relevant limits are monitored on an ongoing basis. The exposure to credit risk is managed through a constant analysis of the ability of borrowers and potential borrowers to cover their liabilities and, where appropriate, by changing credit limits.

Collateral

The Group uses a set of credit risk mitigation policies and practices. A requirement of the Group to borrowers is to provide liquid collateral before the approved credits are granted, for all loans other than consumer loans for individuals.

The main types of collateral on the loans provided to customers are as follows:
- cash in Bulgarian leva and foreign currency;
- real estate mortgages;
- pledges on business assets, such as receivables, inventories, plant and equipment;
- pledged on financial instruments; and
- guarantees issued in favour of the Group.

For the purpose of minimising credit losses, the Group requires additional collateral from counterparties if there are any indications of impairment of the individual receivables on the loans granted. Collateral held as pledge on financial assets other than loans and advances is designated depending on the nature of the financial instrument.

Given the specifics of the Group's business and the growing portfolio of small consumer loans, the share of unsecured loans in the banking portfolio is growing. This type of loans is mostly short-term (average maturity of the portfolio of about 20 months) and with very low limits (average amount of receivables around BGN 1 thousand) and therefore, the Bank does not require collateralisation of its receivable.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

The following types of collateral are considered by the Group as highly liquid: cash in Bulgarian leva and foreign currencies; guarantees by states, governments, banks or institutions with awarded high ratings from recognised rating agencies; first-ranking mortgage on a real estate in a residential, commercial, administrative or hotel building insured against loss in favour of the Group; first-ranking mortgage on regulated land property. The value of highly liquid collaterals is determined in accordance with the internal policy of the Group, taking into account evaluations and analyses prepared by independent appraisers and / or internal experts of the Group. Such values are reviewed regularly to ensure adequacy of the respective valuation. Placements with other banks are not secured.

For the purposes of minimizing credit risk, the Bank also accepts as collateral the following: the first mortgage on real estate under construction, pledges on vehicles, machinery and equipment and receivables.

Cash is accepted as collateral if it is pledged in favour of the Group on an account opened with the Group as follows:

1. The pledge on cash in the currency of the credit is 100% accepted (including the EUR:BGN currency pair).
2. The pledge on cash in a currency other than that of the credit is assumed to be 95%. Cash deposits and equivalent cash instruments held by a third party institution will be eligible to be treated as provided for in Article 232 (1) of Regulation 575/2013 where all of the following conditions are met:
    - they are only accepted as an exception with the express approval of the Impairment Committee.
    - the borrower's receivable from the third-party institution is publicly pledged or assigned to the lending institution and this pledge or assignment is legally valid and enforceable in all relevant jurisdictions, and is unconditional and irrevocable;
    - the third-party institution has been notified of the pledge or assignment; following the notification, the third-party institution is able to make the payments only to the lending institution or to other persons only with the preliminary consent of the lending institution.
3. Government securities are accepted as collateral for impairment purposes only after the express approval by the Impairment Committee.
4. Immovable property is classified as eligible collateral only if all requirements specified below have been complied with. The following requirements on legal certainly shall be met:
    - a mortgage or charge is enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement and shall be properly filed on a timely basis;
    - all legal requirements for establishing the pledge have been fulfilled;
    - the protection agreement and the legal process underpinning it enable the institution to realise the value of the protection within a reasonable timeframe.

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

In accordance with article 208 of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, the following requirements on monitoring of property values and on property valuation shall be met:

- The Group monitors the value of the property on a frequent basis – at least once every year for commercial immovable property, and at least once in every three years for residential real estate. The Group carry out more frequent monitoring where the market is subject to significant changes in market conditions;
- The value of property is reviewed when information available to the Group indicates that the value of the property may have declined materially relative to general market prices and that review is carried out by a valuer who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process. The Group may apply statistical models to monitor the property values and to identify property that requires a review of the valuation.

The table below shows the total gross amount of loans to customers by type of collateral:

At 31 December	Loans to customers			
	2019		2018	
	Gross amount of loans	Collateral	Gross amount of loans	Collateral
Loans, collateralized by mortgages	89,082	86,758	79,866	76,565
Loans with cash collateral	972	972	916	912
Loans with other collateral	13,245	12,922	2,973	2,583
Unsecured loans	603,641	-	505,801	-
Total loans to customers	**706,940**	**100,652**	**589,556**	**80,060**

The next table shows the level of coverage of credit risk by collateral provided as a percentage of the carrying amount of the loans, by types of collateral as of 31 December 2019 and 31 December 2018. The amount of collateral is considered up to the amount of exposures it relates to, thus eliminating the effect of collateral exceeding the exposure. Exposures secured by mortgage are 97 % covered for credit risk, and those secured by cash – 100 %, which illustrates the level of the Group's exposure to risk of credit losses.

	2019	2018
Loans collateralized by mortgages	97%	96%
Loans with cash collateral	100%	100%
Loans with other collateral	98%	87%

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Contingent liabilities and irrevocable commitments

Guarantees and letters of credit which represent irrevocable commitment by the Group to make the respective payment if the customer fails to discharge its liability to a third party give rise to the same type of risk as loans. Documentary and commercial letters of credit which represent written commitments of the Group on behalf of a customer that has authorised a third party to issue orders to the Group up to an agreed amount in accordance with specific conditions, are secured with cash deposits or other pledges in favour of the Group and therefore, the Group reports minimum risk levels.

Commitments to grant loans represent the unutilised portion of the allowed loan amount, guarantees or letters of credit. The Group controls the maturity of the credit commitments since in most cases long-term commitments bear higher credit risk compared to the short-term ones.

Credit conversion factor (CCF) is determined in accordance with the provision of article 166 (10) and Appendix I to Regulation 575/2013. The Group has no guarantees claimed within the five previous years and therefore, the risk of claiming guarantees was not considered significant as at 31 December 2019.

Maximum exposure to credit risk before collaterals

The table below presents the worst case scenario of exposure to credit risk of the Group as at 31 December 2019 and 31 December 2018 without taking into account any collateral. Exposures for balance sheet assets are based on the net book values reported at the balance sheet date.

At 31 December	**Maximum exposure**	
	2019	**2018**
Cash balances with central banks	86,611	110,602
Placements with other banks	12,879	17,120
Derivatives	745	306
Loans to customers:		
Corporate customers	127,143	98,611
Individuals	498,606	416,030
Finance leases	11,201	16,859
Financial assets at fair value through other comprehensive income	111,625	66,377
Other receivables	3,578	4,839
Credit risk exposures related to contingent liabilities and irrevocable commitments are as follows:		
Guarantees	703	938
Undrawn loans commitments	33,899	29,548
Total maximum exposure to credit risk	**886,990**	**761,230**

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Segmentation and models for calculation of expected credit losses

All credit risk exposures are assessed and ranked on the basis of the period of default of the amounts due (principal and interest) at the level of the customer as follows:

The entire segmentation process for the purposes of impairment can be divided into several steps.

Step 1 Group identification
To calculate the expected credit losses, the Group's portfolio is divided into segments with similar product characteristics.

Historical data of defaults and PD / LGD / EAD (probability of default / loss given default / exposure at default) is provided by groups of financial assets with similar characteristics and they are calculated for each combination of groups of financial assets и the phase of impairment.

Step 2 Determination of the phase and transition
Criteria for determination of the Phase:
- name of the Phase;
- name of the segment (product);
- days past due

Step 3 Model and method identification
- a collective model applies to the group of exposures with similar characteristics;
- for individual exposures not falling within a group of exposures with similar characteristics, individual assessment models are applied.

Step 4 Process of calculation of PD / LGD / EAD
Phase 1 and Phase 2 PD / LGD / EAD (12-month expected loss and expected loss throughout the entire lifetime of the instrument (lifetime ECL), respectively)

For Phase 1, an estimate of the expected loss over 12 months is made on the basis of:
- 12-month indicators for the value of PD;
    - late payments (period of 12 months) by conducting an analysis of the transition from one period to another according to days past due by products and a group by number of days past due from one period to another;
    - calculation of late payments through a migration matrix.

- Calculation of LGD based on:
    - cash flows from collection of receivables through a 'vintage' analysis of the historical cash flows from collection of receivables;
    - collateral details based on an analysis of the receivables recovery;
    - analysis of the historical collection levels.

For Phase 2 an estimate of the expected loss throughout the entire lifetime of the instrument is made, based on:
- Indicators for the duration (life) of the instrument:
    - late payments by conducting an analysis of the transition from one period to another according to days past due by products
    - calculation of late payments through a migration matrix

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

- Calculation of LGD based on:
  - cash flows from collection of receivables through a 'vintage' analysis of the historical cash flows from collection of receivables;
  - collateral details based on an analysis of the receivables recovery;
  - analysis of the historical collection levels.

Phase 3 Lifetime expected credit loss

Phase 3 requires assessment of the expected loss throughout the entire lifetime of the instrument for loans with objective evidence of impairment, as follows:

- Cash flows from collection of receivables
  - contractual cash flows are used
  - cash flows from actual payments
  - estimated cash flows
- Calculated EIR
- Calculation of LGD based on:
  - cash flows from collection of receivables through a 'vintage' analysis of the historical cash flows from collection of receivables;
  - collateral details based on an analysis of the receivables recovery;
  - analysis of the historical collection levels.

Step 5 Calculation of expected credit losses
IFRS 9 defines the expected loss model on the basis of which allowance is made for losses expected to arise as a result of future probable events. The Group applies the following formula for calculating impairment:

ECL (expected credit loss) = EAD * PD * LGD

The factors or indicators to be considered by the Group when determining whether the recognition of a 12-month expected credit loss or a lifetime expected credit loss is necessary are the following:

1. Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations.
2. An actual or expected significant change in the operating results of the borrower, such as insolvency, increasing bad debts, actual or expected declining revenue, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, decreasing liquidity, management problems or changes in the organisational structure (such as the discontinuance of a segment of the business) that results in a significant change in the borrower's ability to meet its debt obligations.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

3. A significant increase in the credit risk on other financial instruments of the same borrower.
4. An actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations, such as a decline in the demand for the borrower's sales product because of a shift in technology.
5. Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to make scheduled contractual payments or to otherwise have an effect on the probability of a default occurring.
6. A significant change in the quality of the guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion.
7. Significant changes, such as reductions in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement, that are expected to reduce the borrower's economic incentive to make scheduled contractual payments.
8. Expected changes in the loan documentation including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the instrument.
9. Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group.
10. Past due information, including the rebuttable presumption for default by more than 30 days.
11. Forbearance measures applied to a borrower or a group of related borrowers.

In the individual assessment in relation to the actions of the Group upon changes in credit risk, the Group takes into account the outcome of the assessment of every separate loan of legal entities on a regular basis through an individual assessment based on its current and historical performance, the borrower's behaviour in connection with other financial instruments in the Group, the loan amount, and the timing of loan extension, and collateral analyses. As for microcredits granted to legal entities that are collectively assessed, the Bank applies collective assessment on a portfolio basis. Additional disclosures on segmentation for impairment purposes are provided in Note 3 Significant accounting estimates and judgements in applying the accounting policies.

The requirements of IFRS 9 with respect to the impairment of **lease receivables**: IFRS 9 requires that when measuring the receivable, only the cash flows used in measuring the lease receivable to be taken into account instead of making an allowance against future cash flows that are not yet recognised in the statement of financial position.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

The following calculation procedures are applied for loan portfolios collectively assessed for impairment:

Calculation of the probability of default (PD)

The calculation of the probability of default is based on monthly migration matrices by number of exposures. The calculation takes place in two phases:

1) calculation of a migration matrix for a 12-month period;
2) calculation of migration matrices for a period of 2 to 5 years for the expected loss throughout the entire lifetime of the instrument (5 years is the maximum contractual term of the exposures impaired on a portfolio basis). To calculate a probability of default for N number of years, the relevant number of migration matrices is multiplied.

The loss given default (LGD) is calculated as follows:

LGD = 1 – Recovery percentage * Discount factor

The amount recovered on a product is discounted by the average annual effective rate applicable to that product.

Calculation of loss given default under a lease portfolio

For the purposes of calculating the default loss parameter, the default criterion for leasing contracts is to send to the customer a notice of cancellation of the lease contract in accordance with the terms and conditions laid down therein. The recovery rate is calculated for a historical period of up to seven years, excluding the contracts cancelled in the last 3 months for which the period of marketing the lease asset to other customers has not been completed.

Exposures exceeding EUR 500,000 are impaired individually and are not included in the calculation of the loss given default.

For each annulled contract, the following amounts shall be deemed to be recovered:

- amounts recovered from the customer after default until the reporting month;
- for assets acquired, the amount is deemed to be recovered from the date of the subsequent lease contract and no profit shall be included in this amount.

All amounts recovered are discounted until the month of default using the original effective interest rate comprising a contractual interest rate and fees applicable to the specific product.

Calculation of exposure at default (EAD)

Upon calculating the expected amount of the exposure at default, a coefficient of the calculated exposure at default is applied historically to the exposure amount at the beginning of the relevant period.

Credit conversion factor for off-balance sheet positions

An impairment is calculated also with respect to off-balance sheet positions recognised in accordance with article 9.2.1 and article B2.5 of Regulation 2016/2067. In order to measure as accurately as possible the exposure on off-balance sheet positions, such as financial guarantees and credit commitments which represent a potential additional credit loss, an appropriate credit conversion factor is used.

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

The credit conversion factor (CCF) is determined in accordance with article 166 (10) and Appendix I to Regulation 575/2013.

Loans to customers are summarised as follows:

Loans to customers

At 31 December 2019	Neither past due, nor impaired individually	Past due but not impaired individually	Impaired individually	Total
Phase 1	457,685	94,985	2,097	554,767
Phase 2	6,607	38,596	324	45,527
Phase 3	2,730	95,380	8,536	106,646
Gross amount	**467,022**	**228,961**	**10,957**	**706,940**
Less: impairment loss allowance	(11,573)	(65,783)	(3,835)	(81,191)
Carrying amount	**455,449**	**163,178**	**7,122**	**625,749**

Finance leases

At 31 December 2019	Neither past due, nor impaired individually	Past due but not impaired individually	Impaired individually	Total
Phase 1	2,455	329	-	2,784
Phase 2	258	672	-	930
Phase 3	15	7,369	1,057	8,441
Gross amount	**2,728**	**8,370**	**1,057**	**12,155**
Less: impairment loss allowance	(10)	(60)	(884)	(954)
Carrying amount	**2,718**	**8,310**	**173**	**11,201**

Loans to customers

At 31 December 2018	Neither past due, nor impaired individually	Past due but not impaired individually	Impaired individually	Total
Phase 1	367,159	82,400	3,077	452,636
Phase 2	4,966	36,791	847	42,604
Phase 3	2,409	81,699	10,208	94,316
Gross amount	**374,534**	**200,890**	**14,132**	**589,556**
Less: impairment loss allowance	(11,355)	(60,176)	(3,384)	(74,915)
Carrying amount	**363,179**	**140,714**	**10,748**	**514,641**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Finance leases

At 31 December 2018	Neither past due, nor impaired individually	Past due but not impaired individually	Impaired individually	Total
Phase 1	4,778	2,233	-	7,011
Phase 2	205	2,239	-	2,444
Phase 3	174	6,984	1,256	8,414
Gross amount	**5,157**	**11,456**	**1,256**	**17,869**
Less: impairment loss allowance	(20)	(48)	(942)	**(1,010)**
Carrying amount	**5,137**	**11,408**	**314**	**16,859**

The total impairment loss allowance on credits and advances is BGN 82,145 thousand (2018: BGN 75,925 thousand). Allowances accrued by individually assessed financial assets amount to BGN 4,719 thousand (2018: BGN 4,326 thousand) and those accrued on the a collective basis amount to BGN 77,426 thousand (2018: BGN 71,599 thousand). Further details of the impairment loss allowance on credits and advances is given in Note 16.

In 2019, loans to customers extended by the Group, before impairment, grew by 18.38% compared to the previous year. In order to effectively manage credit risk, the Group continues to actively engage in renegotiation, restructuring and closure of existing risk exposures.

Loans to customers that are neither past due, nor impaired individually

Loans to customers and financial leases that are neither past due nor impaired individually are presented in the table below depending on the purpose of the loan:

At 31 December 2019	Corporate customers	Individuals	Financial leases	Total
Phase 1	84,132	373,553	2,455	**460,140**
Phase 2	5,163	1,444	258	**6,865**
Phase 3	2,464	266	15	**2,745**
Gross amount	**91,759**	**375,263**	**2,728**	**469,750**
Less: impairment loss allowance	(595)	(10,978)	(10)	**(11,583)**
Carrying amount	**91,164**	**364,285**	**2,718**	**458,167**
Total	**91,759**	**375,263**	**2,728**	**469,750**
Including				
Standard risk loans	*89,387*	*374,682*	*2,728*	***466,797***
Higher risk loans	*2,372*	*581*	-	***2,953***

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Higher risk loans are loans which have had some breaches in the last six months as of the date of the financial statements are neither past due nor impaired.

At 31 December 2018	**Corporate customers**	**Individuals**	**Financial leases**	**Total**
Phase 1	58,662	308,497	4,778	**371,937**
Phase 2	3,040	1,926	205	**5,171**
Phase 3	1,916	493	174	**2,583**
Gross amount	**63,618**	**310,916**	**5,157**	**379,691**
Less: impairment loss allowance	(539)	(10,816)	(20)	**(11,375)**
Carrying amount	**63,079**	**300,100**	**5,137**	**368,316**
Total	**63,618**	**310,916**	**5,157**	**379,691**
Including				
Standard risk loans	*61,702*	*309,650*	*5,157*	***376,509***
Higher risk loans	*1,916*	*1,266*	-	***3,182***

The consumer loan portfolio, which represents more than 79.89% (2018: 81.89%) of all receivables that are neither past due nor individually impaired, is strongly diversified both in terms of number and of amount. The latter comprises many small exposures without geographic and sector concentrations, characterised with its short-term nature and high quality based on past experience. With respect to loans to corporate customers, these are primarily SMEs of acceptable credit quality and within the Group's risk appetite. The loan portfolio comprises loans secured mainly by mortgages.

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans granted to customers that are overdue, but not impaired individually

Loans to customers that are neither past due nor individually impaired are divided on the basis of historical analysis of non-performance of the customers' obligations. The group bearing higher risk includes exposures past due for more than 90 days over the last six months as at the date of the financial statements. All other exposures are included in the group of standard quality of credit risk.

At 31 December 2019	**Corporate customers**	**Individuals**	**Finance leases**	**Total**
Phase 1	**9,260**	**85,725**	**329**	**95,314**
Past due up to 30 days	9,260	85,725	329	95,314
Phase 2	**9,369**	**29,227**	**672**	**39,268**
Past due up to 30 days	1,205	3,205	59	4,469
Past due from 31 to 60 days	7,404	18,005	588	25,997
Past due from 61 to 90 days	760	8,017	25	8,802
Phase 3	**13,034**	**82,346**	**7,369**	**102,749**
Past due up to 90 days	658	1,996	-	2,654
Past due more than 90 days	12,376	80,350	7,369	100,095
Gross amount	**31,663**	**197,298**	**8,370**	**237,331**
Less: impairment loss allowance	(2,806)	(62,977)	(60)	(65,843)
Carrying amount	**28,857**	**134,321**	**8,310**	**171,488**

At 31 December 2018	**Corporate customers**	**Individuals**	**Finance leases**	**Total**
Phase 1	**11,599**	**70,801**	**2,233**	**84,633**
Past due up to 30 days	11,599	70,801	2,233	84,633
Phase 2	**5,135**	**31,656**	**2,239**	**39,030**
Past due up to 30 days	1,419	2,521	424	4,364
Past due from 31 to 60 days	2,239	20,514	1,641	24,394
Past due from 61 to 90 days	1,477	8,621	174	10,272
Phase 3	**9,509**	**72,190**	**6,984**	**88,683**
Past due up to 90 days	3,007	1,128	2,539	6,674
Past due more than 90 days	6,502	71,062	4,445	82,009
Gross amount	**26,243**	**174,647**	**11,456**	**212,346**
Less: impairment loss allowance	(1,459)	(58,717)	(48)	(60,224)
Carrying amount	**24,784**	**115,930**	**11,408**	**152,122**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

According to internal policies and policies, the Group assesses individually the corporate loans in its portfolio and calculates a provision for impairment in the presence of objective evidence of impairment. Consumer loans and retail loans are considered to have portfolio impairment indicators, with credit quality being determined on the basis of an analysis of the days past due and the respective scope of the delay.

Loans to customers impaired individually

At 31 December 2019	Corporate customers	Individuals	Finance leases	Total
Phase 1	2,097	-	-	**2,097**
Phase 2	324	-	-	**324**
Phase 3	8,536	-	1,057	**9,593**
Gross amount	**10,957**	**-**	**1,057**	**12,014**
Less: impairment loss allowance	(3,835)	-	(884)	**(4,719)**
Carrying amount	**7,122**	**-**	**173**	**7,295**

At 31 December 2018	Corporate customers	Individuals	Finance leases	Total
Phase 1	3,077	-	-	**3,077**
Phase 2	847	-	-	**847**
Phase 3	10,170	38	1,256	**11,464**
Gross amount	**14,094**	**38**	**1,256**	**15,388**
Less: impairment loss allowance	(3,346)	(38)	(942)	**(4,326)**
Carrying amount	**10,748**	**-**	**314**	**11,062**

For individually assessed accounts loans are treated as impaired as soon as objective evidence indicate that an impairment loss has been incurred.

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

The following tables illustrate the movement between the phases of loans extended to corporate customers:

	Phase 1	Phase 2	Phase 3	Total
Gross amount of credit exposures at 01.01.2019 under IFRS 9	80,349	11,466	30,009	**121,824**
Newly extended or purchased loans	71,429	4,514	3,972	**79,915**
Closed loans	(32,051)	(2,000)	(3,741)	**(37,792)**
Transfers to Phase 1	1,304	(1,246)	(58)	-
Transfers to Phase 2	(9,275)	9,416	(141)	-
Transfers to Phase 3	(2,396)	(3,333)	5,729	-
Impairment of loans with unchanged phase	(9,489)	(2,798)	740	**(11,547)**
Collection of receivables under Phase 3 loans	-	-	(3,429)	**(3,429)**
Loans written off	-	-	(247)	**(247)**
Foreign currency differences	(1,636)	(232)	(382)	**(2,250)**
Gross amount of credit exposures as at 31.12.2019	**98,235**	**15,787**	**32,452**	**146,474**

	Phase 1	Phase 2	Phase 3	Total
Gross amount of credit exposures at 01.01.2019 under IFRS 9	797	430	5,096	**6,323**
Newly extended or purchased loans	612	353	908	**1,873**
Closed loans	(433)	(119)	(465)	**(1,017)**
Transfers to Phase 1	55	(24)	(31)	**-**
Transfers to Phase 2	(50)	62	(12)	**-**
Transfers to Phase 3	(61)	(196)	257	**-**
Impairment of loans with unchanged phase	85	771	802	**1,658**
Collection of receivables under Phase 3 loans	-	-	(257)	**(257)**
Loans written off	-	-	(247)	**(247)**
Foreign currency differences	(289)	(694)	816	**(167)**
Gross amount of credit exposures as at 31.12.2019	**716**	**583**	**6,867**	**8,166**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

The following tables illustrate the movement between the phases of loans extended to corporate customers:

	Phase 1	Phase 2	Phase 3	Total
Gross amount of credit exposures at 01.01.2018 under IFRS 9	61,608	11,850	43,013	**116,471**
Newly extended or purchased loans	43,009	4,308	1,611	**48,928**
Closed loans	(14,058)	(1,762)	(6,375)	**(22,195)**
Transfers to Phase 1	8,132	(3,937)	(4,195)	**-**
Transfers to Phase 2	(5,689)	6,085	(396)	**-**
Transfers to Phase 3	(3,317)	(2,022)	5,339	**-**
Impairment of loans with unchanged phase	(9,336)	(3,056)	(306)	**(12,698)**
Collection of receivables under Phase 3 loans	-	-	(8,716)	**(8,716)**
Loans written off	-	-	-	**-**
Foreign currency differences	-	-	34	**34**
Gross amount of credit exposures as at 31.12.2018	**80,349**	**11,466**	**30,009**	**121,824**

	Phase 1	Phase 2	Phase 3	Total
Gross amount of credit exposures at 01.01.2018 under IFRS 9	498	175	5,351	**6,024**
Newly extended or purchased loans	692	267	505	**1,464**
Closed loans	(29)	(43)	(807)	**(879)**
Transfers to Phase 1	44	(17)	(27)	**-**
Transfers to Phase 2	(29)	29	-	**-**
Transfers to Phase 3	(52)	(29)	81	**-**
Impairment of loans with unchanged phase	(316)	275	951	**910**
Collection of receivables under Phase 3 loans	-	-	(401)	**(401)**
Loans written off	-	-	(543)	**(543)**
Foreign currency differences	(11)	(227)	(14)	**(252)**
Gross amount of credit exposures as at 31.12.2018	**797**	**430**	**5,096**	**6,323**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

The following tables illustrate the movement between the phases of loans extended to individuals:

	Phase 1	Phase 2	Phase 3	Total
Gross amount of credit exposures at 01.01.2019 under IFRS 9	379,298	33,582	72,721	**485,601**
Newly extended or purchased loans	420,805	21,865	29,201	**471,871**
Closed loans	(222,960)	(9,157)	(8,440)	**(240,557)**
Transfers to Phase 1	7,941	(6,039)	(1,902)	**-**
Transfers to Phase 2	(14,152)	14,273	(121)	**-**
Transfers to Phase 3	(21,425)	(12,077)	33,502	**-**
Impairment of loans with unchanged phase	(89,234)	(11,421)	(9,730)	**(110,385)**
Collection of receivables under Phase 3 loans	22	24	(3,078)	**(3,032)**
Loans written off	(243)	(320)	(29,306)	**(29,869)**
Foreign currency differences	(736)	(62)	(211)	**(1,009)**
Gross amount of credit exposures as at 31.12.2019	**459,316**	**30,668**	**82,636**	**572,620**

	Phase 1	Phase 2	Phase 3	Total
Gross amount of credit exposures at 01.01.2018 under IFRS 9	15,389	8,350	45,865	**69,604**
Newly extended or purchased loans	14,050	5,586	19,553	**39,189**
Closed loans	(7,562)	(1,662)	(5,946)	**(15,170)**
Transfers to Phase 1	3,378	(1,559)	(1,819)	**-**
Transfers to Phase 2	(848)	955	(107)	**-**
Transfers to Phase 3	(1,645)	(3,519)	5,164	**-**
Impairment of loans with unchanged phase	(5,730)	(752)	22,636	**16,154**
Collection of receivables under Phase 3 loans	-	-	(2,154)	**(2,154)**
Loans written off	(1,382)	215	(31,675)	**(32,842)**
Foreign currency differences	(97)	(21)	(684)	**(802)**
Impairment loss allowance at 31.12.2018	**15,553**	**7,593**	**50,833**	**73,979**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

The following tables illustrate the movement between the phases of loans extended to individuals:

	Phase 1	Phase 2	Phase 3	Total
Gross amount of credit exposures at 01.01.2018 under IFRS 9	328,772	24,190	39,708	**392,670**
Newly extended or purchased loans	299,642	20,926	23,713	**344,281**
Closed loans	(164,985)	(9,983)	(12,612)	**(187,580)**
Transfers to Phase 1	12,811	(5,022)	(7,789)	**-**
Transfers to Phase 2	(15,618)	16,721	(1,103)	**-**
Transfers to Phase 3	(30,272)	(7,070)	37,342	**-**
Impairment of loans with unchanged phase	(50,610)	(6,180)	22,950	**(33,840)**
Collection of receivables under Phase 3 loans	-	-	(5,055)	**(5,055)**
Loans written off	(442)	-	(24,433)	**(24,875)**
Gross amount of credit exposures as at 31.12.2018	**379,298**	**33,582**	**72,721**	**485,601**

	Phase 1	Phase 2	Phase 3	Total
Gross amount of credit exposures at 01.01.2018 under IFRS 9	10,453	6,442	24,888	**41,783**
Newly extended or purchased loans	11,053	4,721	16,143	**31,917**
Closed loans	(10,969)	(935)	(6,674)	**(18,578)**
Transfers to Phase 1	961	(269)	(692)	-
Transfers to Phase 2	(666)	773	(107)	-
Transfers to Phase 3	(3,759)	(509)	4,268	-
Impairment of loans with unchanged phase	8,782	(1,873)	34,032	**40,941**
Collection of receivables under Phase 3 loans	-	-	(1,605)	**(1,605)**
Loans written off	(442)	-	(24,433)	**(24,875)**
Foreign currency differences	(24)	-	45	**21**
Impairment loss allowance at 31.12.2018	**15,389**	**8,350**	**45,865**	**69,604**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Concentration of risks by geographic sectors for financial assets with credit risk exposure

Geographic sectors

Financial assets	**2019**	**2018**
Bulgaria	359,562	324,669
Romania	432,199	373,869
Luxembourg	14,202	10,716
Croatia	11,601	-
Greece	9,755	-
Serbia	7,566	-
Poland	5,606	-
Norway	4,433	11,226
Other countries	7,463	10,264
Total financial assets	**852,387**	**730,744**
Exposures to credit risk related to contingent liabilities and irrevocable commitments:		
Bulgaria	9,630	11,640
Romania	24,936	18,845
Other countries	36	1
Total financial assets and contingent liabilities and irrevocable commitments	**886,989**	**761,230**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

The table below presents an analysis of placements with other banks at 31 December 2019 and 31 December 2018 based on criteria set by a rating agency as a result of credit assessments of a recognised external institution. Ratings awarded by Standard & Poor's or their equivalents are shown in the table below:

	31 December 2019			31 December 2018	
Rating	**Financial assets at fair value through other comprehensive income**	**Placements with other banks**	**Rating**	**Financial assets at fair value through other comprehensive income**	**Placements with other banks**
A2 (Moody's)	9,755	-	A2 (Moody's)	-	-
Baa1 (Moody's)	-	3,156	Baa1 (Moody's)	-	3,080
B- (Fitch)	-	24	B- (Fitch)	-	44
BBB (Fitch)	-	828	BBB (Fitch)	-	3,190
BBB (BCRA)	-	25	BBB (BCRA)	-	-
Baa3 (Moody's)	63,975	30	Baa3 (Moody's)	39,016	22
BBB+ (Fitch)	-	155	BBB+ (Fitch)	-	-
BBB- (Fitch)	-	-	BBB- (Fitch)	-	-
BBB- (BCRA)	-	7,933	BBB- (BCRA)	-	6,007
BB+ (BCRA)	-	48	BB+ (BCRA)	-	4,268
BB+ (Fitch)	-	-	BB+ (Fitch)	-	45
BB (Fitch)	-	631	BB (Fitch)	-	433
BB- (Fitch)	-	1	BB- (Fitch)	-	31
Ba2 (Moody's)	11,601	-	Ba2 (Moody's)	1,827	-
Ba3 (Moody's)	7,566	-	Ba3 (Moody's)	3,500	-
B1 (Moody's)	-	48	B1 (Moody's)	-	-
B2 (Moody's)	10,539	-	B2 (Moody's)	10,716	-
Unrated	8,189	-	Unrated	11,318	-
Total	**111,625**	**12,879**	**Total**	**66,377**	**17,120**

Placements with other banks and financial assets at fair value through other comprehensive income were classified in Phase 1 at 31 December 2019. Total credit loss allowances at 31 December 2019 are as follows:

- placements with other banks – BGN 3 thousand reported in decrease of total debt;
- financial assets at fair value through other comprehensive income – BGN 220 thousand reported in other comprehensive income.

As of 31 December 2019, the rating of cash balances in accounts with central banks was BBB (2018: BBB-).

Placements with other banks and other unrated financial institutions are classified internally based on an analysis of qualitative and quantitative factors.

At 31 December 2019 and 31 December 2018, other receivables were neither past due nor impaired. Other receivables are settled within 30 days after the date of occurrence and therefore, they are considered not past due. Other receivables were fully paid at the date of issue of the financial statements.

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

At 31 December 2019	Gross amount	Instruments with changed terms Phase 2	Instruments with changed terms Phase 3	Total loans to customers with forbearance measures	Ratio to total gross loan portfolio in the segment
Loans to customers					
Corporate customers	146,089	3,046	18,094	**21,140**	14.47%
Individuals	511,922	40	1	**41**	0.01%
Total amount	**658,011**	**3,086**	**18,095**	**21,181**	**3.22%**

At 31 December 2019	Phase 2	Phase 3	Total amount
Impairment of forborne loans to customers			
Corporate customers	40	3,123	3,163
Individuals	11	1	12
Total amount	**51**	**3,124**	**3,175**

At 31 December 2018	Gross amount	Instruments with changed terms Phase 2	Instruments with changed terms Phase 3	Total loans to customers with forbearance measures	Ratio to total gross loan portfolio in the segment
Loans to customers					
Corporate customers	103,952	577	18,501	**19,078**	15.95%
Individuals	485,604	53	14	**67**	0.02%
Total amount	**589,556**	**630**	**18,515**	**19,145**	**3.43%**

At 31 December 2018	Phase 2	Phase 3	Total amount
Impairment of forborne loans to customers			
Corporate customers	1	2,111	2,112
Individuals	10	-	10
Total amount	**11**	**2,111**	**2,122**

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

b Market risk

The Group is exposed to market risk. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Market risk arises from open interest, currency and equity positions, which are exposed to the general and specific movements in market rates and prices, such as interest rates, credit spreads, foreign exchange rates and security prices. The components of market risk include foreign currency risk and interest rate risk.

Interest rate risk is the risk of a potential loss as a result of adverse changes in interest rates. This includes risk of changes in the yield curve, basis risk, spread risk, etc.

Foreign currency risk is the risk of a potential loss as a result of adverse changes in foreign currency exchange rates against the main currency. It includes the overall risk (or global currency risk – impacts the complete operations of the Group – income, expenses, cash flow dynamics, regardless of which market transactions are oriented to), volatility risk and convertibility risk.

The risk related to the changes in the fair value of security prices is the risk of a potential loss as a result of changes in these prices.

The Group's market risk policy is developed by the risk management units of the entity and is approved by the management board of the Group. The market risk policy is reviewed periodically and the changes are submitted to the management board. The market risk policy is applied in respect of control of this risk, arising on all assets, liabilities, contingencies and commitments of the Group, and accordingly covers financial and non-financial transactions that are subject to market risk.

The objectives of market risk control and supervision are:

- to protect the Group against unforeseen market losses;
- to contribute to more stable and predictable earnings; and
- to provide transparent, objective and consistent market risk information which is to serve as basis for sound decision making.

Market risk assessment techniques

The risk factors which generate market risk and should be included in the market risk assessment system include, but are not limited to:

- foreign exchange rates;
- interest rates;
- fair value of securities – the Group assesses this risk as immaterial.

The Group's exposure to derivative contracts is monitored as part of the overall market risk management.

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

b Market risk (continued)

Upon origination, derivatives frequently include only a mutual promise for an exchange against the payment of minimum or no initial amount. Nevertheless, these instruments often lead to high indebtedness levels and are extremely volatile. A relatively small change in the value of assets, interest rate levels or other indices underlying the derivative contracts may have significant impact on the Group's profit and loss.

Swaps are contractual arrangements between two parties to exchange payments over fixed periods of time and based on a nominal amount set in relation to a contractual index such as interest rate, foreign exchange rate or capital index.

In foreign exchange swaps the Group pays a fixed amount in certain currency and receives a fixed amount in another currency.

The Group uses economic hedges for changes in the exchange rates.

The nominal amounts in the table below show the volume of outstanding transactions related to derivative contracts as of 31 December 2019 and 31 December 2018.

31 December 2019	**Assets**	**Liabilities**	**Nominal amount**
Derivatives aimed to hedge changes in interest rates/currency risk			
FX swaps	745	1,321	299,024

31 December 2018	**Assets**	**Liabilities**	**Nominal amount**
Derivatives aimed to hedge changes in interest rates/currency risk			
FX swaps	306	136	119,835

As of 31 December 2019, the Group had active derivatives concluded with the following counterparties: DSK Bank (Bulgaria), Banca Transilvania (Romania), 4Finance SA (Luxembourg). The effect of the concluded derivative contracts on the profit and loss in the reporting period is a loss of BGN 1,132 thousand (2018: BGN 237 thousand).

Foreign currency risk

Fluctuations in the foreign exchange rates have impact on the financial position and cash flows of the Group and expose it to foreign currency risk. The management board sets limits to control the risk on open foreign currency positions, which are monitored daily. As a rule, the Group does not maintain material open positions in currencies other than the Bulgarian lev and Euro. The Group does not measure sensitivity to foreign currency risk, since as at 31 December 2019, the Bulgarian lev is pegged to the Euro. The open foreign currency position in RON, which amounted to BGN 218,491 thousand (2018: BGN 167,445 thousand), is hedged by means of currency forwards and swaps with a nominal amount of BGN 299,024 thousand (2018: FX forward of BGN 119,835 thousand).

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

b Market risk (continued)

Foreign currency risk (continued)

The sensitivity to changes in exchange rates has been calculated directly on the basis of the total net open foreign currency position of the Bank in all foreign currencies (other than EUR) as a 10% amortisation of the value of the local currency compared to all foreign currencies (other than EUR). The exchange rate BGN/EUR is fixed at a ratio BGN 1.95583: EUR 1 as part of the Currency Board parameters.

As at 31 December 2019	**Direct effect on profit/loss**
Exchange rates	
- 10% change of local currency	(17,431)
+ 10% change of local currency	17,431

As at 31 December 2018	**Direct effect on profit/loss**
Exchange rates	
- 10% change of local currency	(12,497)
+ 10% change of local currency	12,497

The Group considers that there is no significant sensitivity and material effect on capital since the bank exposure is managed by derivatives.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will vary due to changes in the market interest rates. Interest rate risk is the risk that the fair value of a financial instrument will vary due to changes in the market interest rates.

The Group takes on risks related to the effect of changes in the market interest rates both in respect of its own financial assets, and in respect of the cash flows. As a result of such changes interest rate margins may increase but they may decrease as well and cause losses in case of unforeseen shocks. Management sets limits to maintain an acceptable level of interest rate imbalance and these limits are monitored regularly.

The sensitivity analysis below illustrates the potential impact on the statement of comprehensive income of floating rate items. The table below shows possible acceptable deviations selected based on the market and economic environment during the reporting period.

At 31 December 2019	**Effect of changes in interest rates on profit/loss**
Interest rates	
+100 bp change	2,532
-100 bp change	(2,532)

At 31 December 2018	**Effect of changes in interest rates on profit/loss**
Interest rates	
+100 bp change	1,543
-100 bp change	(1,543)

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

b Market risk (continued)

Interest rate risk (continued)

The Group considers that there is no significant effect on capital, since the change in interest rates does not have a significant impact on the revaluation of securities available for sale.

Market risk for equity instruments

Market risk for equity instruments is the risk that the fair value of equity instruments will decrease as a result of changes in the levels of market indices and individual stock prices. For the Bank, this risk arises in connection with equity instruments, which are reported at fair value in other comprehensive income. A decrease of 10% in the fair value of these instruments as of 31 December 2019 would lead to a decrease of BGN 443 thousand of the Bank's equity value (2018: BGN 1,123 thousand). A similar increase in fair value would lead to a similar increase in equity.

c Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market should be accessible to the Group.

Fair value of an asset or liability is measured making assumptions that market participants would make to determine the price of the asset or liability, assuming that they would act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

External valuation experts are usually engaged for the measurement of the fair values of the material assets and liabilities. The need to engage external experts is assessed by the Group's management every year. Selection criteria for the valuers include professional experience, qualities and reputation. Management decides, after discussions with the valuation experts, which valuation techniques and inputs to use for each case.

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured as per the Group's accounting policies. This involves verification of the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. Management, in conjunction with the valuation experts, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

	Carrying amount		Fair value	
	2019	**2018**	**2019**	**2018**
Financial assets				
Cash on hand and balances with central banks	97,658	120,564	97,658	120,564
Placements with other banks	12,879	17,120	12,879	17,120
Derivatives	745	306	745	306
Loans to customers:				
Corporate customers	127,107	98,566	116,669	81,082
Individuals	498,642	416,075	480,383	404,548
Finance leases	11,201	16,859	10,731	17,220
Financial assets at fair value through other comprehensive income	111,625	66,377	111,625	66,377
Other receivables	3,578	4,839	3,578	4,839
Financial liabilities				
Due to banks	25,507	5,033	25,507	5,033
Derivatives	1,321	136	1,321	136
Due to customers	608,990	529,933	609,583	527,327
Other borrowings	5,856	112	5,856	112
Other liabilities	33,909	26,815	33,909	26,815

(a) Financial assets and liabilities carried at fair value

Financial assets and liabilities are carried at fair value by using quoted market prices in an active market at the date of the reporting period. In case of lack of quoted prices, the fair values used are the historical amounts, less any impairment losses.

(b) Financial assets and liabilities not carried at fair value

Placements with other banks

Placements with other banks include inter-banking deposits and current accounts. The fair value of floating rate and overnight deposits approximates their carrying amount. The estimated fair value of fixed rate deposits is based on the discounted cash flows using average market interest rates for liabilities with similar credit risk and remaining maturity.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Loans to customers

Loans to customers are carried at amortised cost less any impairment allowance. The fair value of fixed interest rate loans to customers is the present value of the discounted future cash inflows by applying interest rate statistical data published by the relevant Central banks. In 2019 and 2018, the Group extended consumer loans mainly bearing fixed interest rates.

Deposits due to banks and customers

The fair value of deposits from banks approximates their carrying amount due to their short-term nature. The fair value of fixed-rate deposits from customers is the discounted amount of the estimated future cash outflows.

Other borrowings

The fair value of other fixed rate borrowings without quoted market prices is based on the discounted cash flows using interest rates for new liabilities with similar remaining maturity. The fair value of other borrowings approximates their carrying amount due to the fact that as at 31 December 2019 and 2018 most of them bear floating interest rates.

All assets and liabilities for which fair value is measured or for which fair value disclosure is required in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are measured at fair value on a recurring basis, the Group reviews their categorisation at the respective fair value hierarchy level (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period and determines whether transfer(s) should be made between levels.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Fair value hierarchy

The tables below present the fair value hierarchy of the Group's assets and liabilities measured as at 31 December 2019 and 31 December 2018.

Quantitative disclosures of the fair value hierarchy as at 31 December 2019

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value				
Available-for-sale financial assets	-	-	-	-
Financial assets at fair value through other comprehensive income	**111,625**	83,142	23,958	4,525
Loans to customers:				
Individuals	**5,439**	-	-	5,439
Derivatives	**745**	-	745	-
Assets not measured at fair value				
Loans to customers:				
Corporate customers	**116,669**	-	-	116,669
Individuals	**474,944**	-	-	474,944
Finance leases	**10,731**	-	-	10,731
Placements with other banks	**12,879**	-	12,879	-
Liabilities measured at fair value				
Derivatives	**1,321**	-	1,321	-
Liabilities not measured at fair value				
Due to customers	**609,583**	-	-	609,583
Due to banks	**25,507**	-	-	25,507
Other borrowings	**5,856**	-	-	5,856

Due to the short-term nature of other assets, placements with other banks, placements from other banks and other liabilities the Group's management believes that their fair value approximates their carrying amounts as at 31 December 2019 and 31 December 2018.

Management believes that as at 31 December 2019 and 31 December 2018 there are no significant changes in the market conditions for the assets subject to the transaction have been originated, hence the parameters under the transaction reflect the acceptable yield level for the respective type of financial instrument and risk acceptable for the Group.

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

In assessing consumer loans classified in Level 3, management makes market-adjusted returns for the type of financial instrument that it considers to reflect the risk profile of the ceded receivables.

Reconciliation of Level 3 fair value measurement

Balance as at 1 January 2019	**11,318**
Transfers to Level 3	-
Total profit/(loss) for the period recognised in the statement of comprehensive income (trough profit or loss)	-
Total profit/(loss) for the period recognised in the statement of comprehensive income (through other components)	(6,793)
Gain/Loss on assets derecognised	-
Newly acquired assets/(sales) of assets	5,439
Balance at 31 December 2019	**9,964**

The fair value of unquoted equity instruments in other comprehensive income is calculated by a licensed independent valuer based on: 1) publicly-traded comparable method 2) excess earnings method.

Transfers were not made in 2019 between the fair value hierarchy levels, nor any changes in the valuation techniques used during the period.

Description of the valuation techniques and significant inputs to fair value measurement as at 31 December 2019:

	Valuation technique	**Significant observable inputs**	**Range (weighted-average)**	**Sensitivity analysis**
Loans to customers	DCFM	Statistical data of Central banks for interest rates on new business by loans of sectors non-financial entities and mortgage loans by original maturity	2.45% - 13.75% (6.30 %)	Increase/(decrease) in interest rates by 5 % would result in a change in the fair value
Due to customers	DCFM	Statistical data of Central banks for interest rates on new business by term deposits of sectors non-financial entities and households	0.1% - 5% (2.55%)	Increase/(decrease) in interest rates by 2 % would result in a change in the fair value
Other borrowings	DCFM	Current interest rate on borrowings	2%	

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Quantitative disclosures of the fair value hierarchy as at 31 December 2018

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value				
Financial assets at fair value through other comprehensive income	**66,377**	44,343	10,716	11,318
Derivatives	**306**	306	-	-
Assets not measured at fair value				
Loans to customers:				
Corporate clients	**81,082**	-	-	81,082
Individuals	**404,548**	-	-	404,548
Finance leases	**17,220**	-	-	17,220
Placements with other banks	**17,120**	-	17,120	-
Liabilities measured at fair value				
Derivatives	**136**	136	-	-
Liabilities not measured at fair value				
Due to customers	**527,327**	-	-	527,327
Due to banks	**5,033**	-	-	5,033
Other borrowings	**112**	-	-	112

Due to the short-term nature of other assets, placements with other banks, placements from other banks and other liabilities the Group's management believes that their fair value approximates their carrying amounts as at 31 December 2018.

Reconciliation of Level 3 fair value measurement

Balance as at 1 January 2018	**89**
Transfers to Level 3	-
Total profit/(loss) for the period recognised in the statement of comprehensive income (trough profit or loss)	-
Total profit/(loss) for the period recognised in the statement of comprehensive income (through other components)	23
Gain/Loss on assets derecognised	(20)
Newly acquired assets/(sales) of assets	11,226
Balance at 31 December 2018	**11,318**

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Transfers were not made in 2018 between the fair value hierarchy levels, nor any changes in the valuation techniques used during the period.

Description of the valuation techniques and significant inputs to fair value measurement as at 31 December 2018:

	Valuation technique	Significant observable inputs	Range (weighted-average)	Sensitivity analysis
Loans to customers	DCFM	Statistical data of Central banks for interest rates on new business by loans of sectors non-financial entities and mortgage loans by original maturity	3.35% - 19.3% (11.33 %)	Increase/(decrease) in interest rates by 5 % would result in a change in the fair value
Due to customers	DCFM	Statistical data of Central banks for interest rates on new business by term deposits of sectors non-financial entities and households	0.1% - 4.25% (2.75%)	Increase/(decrease) in interest rates by 2 % would result in a change in the fair value
Other borrowings	DCFM	Current interest rate on borrowings	2%	

d Liquidity risk

Liquidity risk is the risk that the available cash resources of the Group may be insufficient to cover the withdrawals on financial liabilities as they fall due, and the inability to replace funds when they are withdrawn. The consequences may lead to inability to cover liabilities to make payments to depositors and to fulfil commitments to disburse loans.

Liquidity risk management process

The Group adopts appropriate liquidity risk management policies which have to ensure:

- that sufficient liquid assets are available to meet the liabilities as they arise;
- financing of medium term assets with medium-term liabilities in a prudent proportion;
- that the liquidity position is monitored on a daily basis and in the course of dealing operations.

The management board of the Group assigns the Asset and Liabilities Management Committee, as the primary responsible unit, with the task to advise the management board on the liquidity management strategy.

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk (continued)

The Asset and Liabilities Management Committee manages:

- the Group's assets and liabilities to ensure regular and timely meeting of current and future obligations;
- the Group's cash inflows and outflows (liquidity sources) and the ratios between assets and liabilities;
- the liquidity ratios in compliance with indicators set; and
- the liquidity ratios recommended by the competent regulatory authority.

The operational management of the Group's assets and liabilities and the execution of the decisions of the Assets and Liabilities Management Committee are assigned to the head of the Financial Markets and Liquidity Department.

The table below presents the financial liabilities of the Group, payables to personnel and taxes, other than income tax, by maturity groups based on the period remaining from the balance sheet date to the maturity date of the contract. The amounts disclosed in the table represent the contractual undiscounted cash flows.

At 31 December 2019	**Gross outflow**	**Less than 1 month**	**1-3 months**	**3 -12 months**	**1-5 years**
Derivatives	1,321	182	32	1,107	-
Due to banks	25,507	25,507	-	-	-
Due to customers	615,442	57,678	236,790	189,375	131,599
Other borrowings	5,922	1,023	470	1,430	2,999
including: Lease liabilities	*4,976*	*202*	*403*	*1,401*	*2,970*
Current tax liabilities	402	402	-	-	-
Other liabilities	41,634	22,105	17,037	933	1,559
Total liabilities (contractual maturity dates)	**690,228**	**106,897**	**254,329**	**192,845**	**136,157**

As at 31 December 2018	**Gross outflow**	**Less than 1 month**	**1-3 months**	**3 -12 months**	**1-5 years**
Derivatives	136	98	38	-	-
Due to banks	5,033	5,033	-	-	-
Due to customers	536,896	129,655	84,427	253,605	69,209
Other borrowings	112	7	-	62	43
Other liabilities	21,164	9,096	11,014	1,041	13
Total liabilities (contractual maturity dates)	**563,341**	**143,889**	**95,479**	**254,708**	**69,265**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk (continued)

Contingent liabilities and irrevocable commitments

The terms of the agreed amounts of contingent liabilities and irrevocable commitments, to which the Group is committed with respect to extension of the term of loans to customers and other terms and conditions, are presented in the following table.

Financial guarantees are presented in the table below based on the earliest agreed maturity date.

As at 31 December 2019	**Within 1 year**	**1-5 years**	**Total**
Guarantees:			
- financial	156	-	**156**
- good performance guarantees	520	27	**547**
Commitments:			
- undrawn loan commitments	27,384	6,515	**33,899**
Total contingent liabilities and irrevocable commitments	**28,060**	**6,542**	**34,602**

As at 31 December 2018	**Within 1 year**	**1-5 years**	**Total**
Guarantees:			
- financial	106	60	**166**
- good performance guarantees	765	7	**772**
Commitments:			
- undrawn loan commitments	25,900	3,648	**29,548**
Total contingent liabilities and irrevocable commitments	**26,771**	**3,715**	**30,486**

The table below presents an analysis of the Group's assets and liabilities by maturity structure at the balance sheet date, based on the remaining period to the agreed maturity dates. Loans to customers with remaining maturity of more than five years are included in the column "not defined".

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk (continued)

As at 31 December 2019	On demand / up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Not defined	Total
Assets							
Cash on hand and balances with central banks	97,658	-	-	-	-	-	**97,658**
Placements with other banks	5,058	-	7,821	-	-	-	**12,879**
Derivatives	167	-	578	-	-	-	**745**
Financial assets at fair value through other comprehensive income	203	7,716	11,688	63,908	23,585	4,525	**111,625**
Loans to customers	65,221	51,099	170,928	337,814	687	-	**625,749**
Finance leases	4,475	284	1,866	4,144	432	-	**11,201**
Other assets	8,943	592	695	816	-	-	**11,046**
Current tax assets	223	-	-	-	-	25	**248**
Intangible assets	-	-	-	-	-	10,833	**10,833**
Property, plant and equipment	-	-	-	-	-	18,263	**18,263**
Deferred tax assets	775	-	-	-	-	-	**775**
Assets acquired from foreclosure on collateral	1,296	-	-	-	-	6,929	**8,225**
Total assets	**184,019**	**59,691**	**193,576**	**406,682**	**24,704**	**40,575**	**909,247**
Liabilities							
Derivatives	182	32	1,107	-	-	-	**1,321**
Due to banks	25,507	-	-	-	-	-	**25,507**
Due to customers	57,627	235,706	188,086	127,571	-	-	**608,990**
Other borrowings	1,019	466	1,401	2,970	-	-	**5,856**
Current tax liabilities	402	-	-	-	-	-	**402**
Other liabilities	22,105	17,037	933	1,559	-	-	**41,634**
Total liabilities	**106,842**	**253,241**	**191,527**	**132,100**	**-**	**-**	**683,710**
Net liquidity gap	**77,177**	**(193,550)**	**2,049**	**274,582**	**24,704**	**40,575**	**225,537**
Cumulative cash flows	**77,177**	**(116,373)**	**(114,324)**	**160,258**	**184,962**	**225,537**	**N/A**

The Group monitors on a daily basis the liquidity assets and liabilities by type of currency, amount and interest rates. With respect to a large portion of liabilities, comprising term deposits from individuals and legal entities, proper measures are taken to encourage the customers to renew their deposits. Deposits of legal entities are primarily in large amounts and the historical experience shows that usually the terms and conditions are re-reviewed and agreed immediately prior to their maturity.

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk (continued)

As at 31 December 2018	On demand / up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Not defined	Total
Assets							
Cash on hand and balances with central banks	120,564	-	-	-	-	-	**120,564**
Placements with other banks	8,800	8,320	-	-	-	-	**17,120**
Derivatives	6	300	-	-	-	-	**306**
Financial assets at fair value through other comprehensive income	9,155	233	214	32,769	12,688	11,318	**66,377**
Loans to customers	39,736	72,714	167,067	234,959	165	-	**514,641**
Finance leases	3,520	2,823	7,371	3,130	15	-	**16,859**
Other assets	6,645	6	1,002	1,401	-	-	**9,054**
Current tax assets	2,035	-	-	-	-	-	**2,035**
Intangible assets	-	-	-	-	-	6,449	**6,449**
Property, plant and equipment	-	-	-	-	-	11,493	**11,493**
Deferred tax assets	515	-	-	-	-	-	**515**
Assets acquired from foreclosure on collateral	1,571	8,532	-	-	-	-	**10,103**
Total assets	**192,547**	**92,928**	**175,654**	**272,259**	**12,868**	**29,260**	**775,516**
Liabilities							
Derivatives	98	38	-	-	-	-	**136**
Due to banks	5,033	-	-	-	-	-	**5,033**
Due to customers	126,668	84,402	251,558	67,305	-	-	**529,933**
Other borrowings	7		62	43	-	-	**112**
Current tax liabilities	1,198	-	-	-	-	-	**1,198**
Deferred tax liabilities	114	-	-	-	-	-	**114**
Deferred tax liabilities	21,124	11,014	1,041	13	-	-	**33,192**
Total liabilities	**154,242**	**95,454**	**252,661**	**67,361**	**-**	**-**	**569,718**
Net liquidity gap	**38,305**	**(2,526)**	**(77,007)**	**204,898**	**12,868**	**29,260**	**205,798**
Cumulative cash flows	**38,305**	**35,779**	**(41,228)**	**163,670**	**176,538**	**205,798**	**N/A**

Fiduciary assets in custody

The Bank is registered as investment intermediary and performs transactions on behalf of its customers in compliance with the requirements of the Financial Supervision Commission. The Bank has approved rules and procedures regulating its fiduciary transactions for customers.

Notes to the consolidated financial statements (continued)

2 Financial Risk Management (continued)

e Capital management

The objectives of the Group's management in managing capital, as a broader concept compared to the "equity" on the face of the balance sheet, include:

- compliance with the capital requirements set by the regulators of the banking markets where the Group operates;
- ensuring the Group's ability to continue as a going concern so that it can continue to provide returns for the shareholders; and
- maintaining strong capital base which is the basis for the development of the Group's operations.

The capital adequacy and the use of equity are monitored by the Group's management employing techniques based on the guidelines developed by the Basel Committee, as well as the EU Directives, adopted by the Bulgarian National Bank (Regulatory Authority) for supervisory purposes. The information required is filed with the Regulatory Authority regularly.

The Regulatory Authority requires each bank or group of banks: *(a)* to hold a minimum level of equity of BGN 10,000 thousand and *(b)* to maintain a ratio of total regulatory capital to risk-weighted assets of 14.75%, formed based on total capital adequacy requirement of 8%, protective capital buffer of 2.5%, systemic risk buffer of 3% and countercyclical buffer of 0.5%, as well as an individual capital requirement for the bank of 0.75%.

The Group's equity is divided into two tiers in accordance with the definitions and requirements of Regulation 575 of the European Parliament and of the Council of 26 June 2013:

(a) Tier-one capital which comprises the following elements:

- registered and paid-in capital, excluding preference shares;
- reserve fund;
  - other reserves for general purposes set aside from the profit after tax;
  - retained earnings from prior years;
  - current year profit less any taxes due, expected dividend payments and other deductions.

(b) Tier-two capital – the Bank does not have Tier-two capital.

The Group includes the retained earnings from prior years in the capital, once the audited separate financial statements are approved by the sole owner of the capital and dividend payments and other deductions have been made.

Once included as elements of the Tier-one capital the retained earnings from prior years may be used to pay dividends only after approval by the Regulatory Authority.

The current year profit can be included in the capital only if the following conditions are met:

- the maximum amount of expected dividend payments and other deductions is set;
- the profits and taxes due are confirmed by the specialised audit firm employed by the Group;

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

e Capital management (continued)

- a notice is sent to the Regulatory Authority with attached documents evidencing the circumstances related to the mandatory conditions and the Regulatory Authority has not objected and / or has given its approval.

The Tier-one capital is reduced by:
- the current and prior year losses;
- the carrying amount of the treasury shares held by the Group;
- the amount of intangible assets;
- the unrealised loss on available for sale financial instruments.

The Group cannot include in its equity:
- reserves from cash flow hedges of items previously measured at amortised cost and cash flow hedges related to forecasted transactions;
- gains or losses on liabilities measured at fair value due to changes in the assessment of the credit quality of the Group;
- unrealised gain on investment properties and available-for-sale financial assets.

The equity is reduced by the carrying amount of investments in shares or other forms of shareholdings of more than 10% of the paid-in capital of a bank or credit institution under the Credit Institutions Act, as well as investments in long-term debt (hybrid) instruments and subordinated term debt in such institutions in which the Group holds more than 10% of the paid-in capital, for each individual case, where they are not consolidated in the Group's balance sheet;

Risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting the assessment of the credit, market and other related risks for each assets and counterparty, taking into account any eligible collateral or guarantee.

A similar treatment is adopted for contingencies and commitments, with some adjustments to reflect the more contingent nature of potential losses.

The table below summarises the structure of equity and the Groups ratios as at 31 December of the respective reporting years. During these two years the Group has complied with the capital requirements to lending institutions.

	2019	2018
Tier-one capital		
Share capital	81,600	81,600
Reserves and retained earnings from prior years	81,287	73,360
Less:		
Intangible assets	(10,833)	(6,449)
Other adjustments of tier-one capital	(1,665)	4,066
Total Tier-one capital	**150,389**	**152,577**
Tier-two capital		
Subordinated term debt	-	-
Total Tier-two capital	-	-
Total risk-weighted assets	**795,924**	**679,781**
Capital adequacy ratio	**18.89%**	**22.45%**

Notes to the consolidated financial statements (continued)

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

2 Financial risk management (continued)

f Operational risk

With respect to operational risk in capital reporting, the Group uses the basic indicator approach for calculating Minimum Capital Requirement for regulatory purposes under First Pillar, which averages net interest income for the last three audited, annual, accounting periods.

Net income	Net income	Net income	Capital requirements	Total amount of exposure to operational risk (x12.5) As at 31 December 2019
2016	*2017*	*2018*		
110,369	142,684	167,863	16,949	211,863

The value of the actual operating losses incurred in January-December 2019 for TBI Bank was BGN 232,121, including BGN 40,606 being reimbursed, representing 17% of the operational damage occurring in 2019.

3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

The Group makes estimates and assumptions that affect the amounts of reported assets and liabilities within the next financial year. Accounting estimates and judgements are consistently applied and are based on the historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of financial assets

The Group reviews its loan and lease portfolios to assess the need for impairment at least on a monthly basis. The Bank divides the loan portfolio into two main categories according to the type of customer, i.e. corporate customers and individuals. The two main categories are further divided into subcategories according to the type of product, thus forming sub-portfolios with similar credit characteristics. The Bank includes these sub-portfolios in the collective impairment model. All loans that cannot be included in these sub-portfolios are assessed for impairment on an individual basis. As a result of this segmentation corporate customers are collectively and individually assessed for impairment and individuals are collectively considered for impairment. In determining whether the impairment loss should be recorded in the statement of comprehensive income the Bank makes an analysis whether objective data exist indicating that there is significant decrease in the estimated future cash flows from a loan portfolio, before the decrease can be associated with an individual loan in that portfolio.

Notes to the consolidated financial statements (continued)

3 Significant accounting judgements, estimates and assumptions (continued)

Such evidence may include observable data, indicating adverse change in the borrowers' ability to meet their loan obligations in the respective portfolio, or their national or local economic conditions that correlate with defaults on the repayments of the loans to the Group. Management uses estimates based on historical loss experience for assets with the credit risk features and objective evidence for impairment similar to those in the portfolio when planning the cash flows. The methodology and assumptions used to estimate the amount and timing of the future cash flows are reviewed regularly, in order to reduce any differences between loss estimates and actual loss experience.

The value of collaterals representing real estates is determined by independent valuation experts, using generally accepted valuation techniques. Such techniques include the revenue method and the discounted cash flows method. In certain cases, fair values are calculated based on recent transactions with real estates with similar features and locations as the collaterals. The calculation of the fair value of the collaterals requires the use of estimates, such as the future cash flows from the assets and the discount rates applicable to these assets. These estimates are based on the conditions at the local market existing as at the valuation date. The continuing volatility and uncertainty of the global financial system is reflected in the uncertainties at the real estate markets. Therefore, in determining the fair value estimates of the collaterals in 2019, the valuation experts have used their knowledge of the market and their professional judgement, and did not simply rely of historical benchmarks for the transactions. Under the circumstances, the estimated values of the collaterals are underpinned by a higher level of uncertainty than that existing in a more active market.

The assets acquired as collateral on loans are classified as assets acquired from foreclosure on collateral. The Group measures collateral acquired in relation to non-performing loans at the lower of their value upon acquisition and the fair value less the costs to make the sale. The calculation of the fair value of the collaterals requires the use of estimates, such as the future cash flows from the assets and the discount rates applicable to these assets. These estimates are based on the conditions at the local market existing as at the valuation date. The Group's management has committed to specific actions aimed at the realisation of these assets through disposal.

<u>Impairment of assets acquired from foreclosure on collateral</u>

The calculation of the fair value of financial assets requires the use of estimates such as future cash flows from assets and discounted rates applicable to those assets. These estimates are based on local market conditions existing at the valuation date. The same applies for determining the costs to sell.

Notes to the consolidated financial statements (continued)

3 Significant accounting estimates and judgements in applying the accounting policies (continued)

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g. construction of significant leasehold improvements or significant customisation to the leased asset).

Refer to Note 23 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Investments in shares

The Bank's main investment in shares of other companies is the investment in 24,826,567 shares of BRABank ASA (Norway), ISIN NO0010752231. These shares are denominated in Norwegian krone (NOK) and are traded on the Oslo Stock Exchange, but the Bank's management has determined that according to the criteria laid down in the International Financial Reporting Standards, the active market trading requirements are not met. As a result, the Bank does not use the stock market quotes to measure its investment. Instead, the Bank relies on valuation models that are based on the financial information published by BRABank ASA. The investment value is presented in the statement of financial position and is approximately NOK 0.9 per share (total investment value of BGN 4,434 thousand), while as of 31 December 2019 the quoted market price is NOK 0.46 per share. The revaluation of the investment in BRABank ASA in the statement of financial position is reported directly in the revaluation reserve in other comprehensive income and is not included in the profit for the year.

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

4 Net interest income

	2019	2018
Interest income applying EIR method		
Loans to customers	172,399	142,959
incl. Impaired loans to customers	*8,084*	*12,866*
Finance leases	1,506	2,489
Placements with other banks and financial institutions	126	197
Financial assets carried at fair value through OCI	2,762	1,376
Total interest income applying EIR method	**176,793**	**147,021**
Interest expenses applying EIR method		
Due to banks and financial institutions	1,145	762
Due to customers	6,013	5,055
Other borrowings	378	4
Total interest expenses applying EIR method	**7,536**	**5,821**
Net interest income	**169,257**	**141,200**

5 Net fee and commission income

	2019	2018
Fee and commission income		
Agent's commissions	33,167	28,470
Transfers and transactions	3,323	1,881
Guarantees and letters of credit	48	39
Total fee and commission income under contracts with customers	36,538	30,390
Other income	373	1,241
Total fee and commission income	**36,911**	**31,631**
Fee and commission expenses		
Agents' commissions	12,851	9,596
Bank transactions	3,408	2,167
Other	29	452
Total fee and commission expense	**16,288**	**12,215**
Net fee and commission income	**20,623**	**19,416**

Agent's commission income originates from an insurance agency contract. Costs of agent's commissions relate to a credit brokerage contract.

6 Net trading gains/ (losses)

At 31 December 2019, net trading gains and losses include results from swaps, forwards and spots: BGN 1,378 thousand (2018: BGN 1,622 thousand).

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

7 Other operating (expenses)/income, net	**2019**	**2018**
Net foreign currency translation loss	(1,780)	(215)
Net loss on derivatives	(1,136)	(238)
Net loss on derecognition of other assets	(1,263)	-
Provisions(*)	(1,121)	-
Net (loss)/gain on written-off debts	(597)	929
Net gain/(loss) on sale of financial assets at fair value in OCI	-	(20)
Rental income	15	42
Net gain on sale of assets acquired from foreclosure on collateral	17	576
Income from re-invoiced amounts to related parties	729	-
Written-off payables	691	-
Other	421	158
Total other operating expenses	**(4,024)**	**1,232**

(*)The item Provisions includes the amounts the Bank owes for reimbursement in cases of early termination of insurance policies concluded via the Group.

8 Staff costs	**2019**	**2018**
Wages and salaries	56,025	47,724
Social security contributions	4,401	3,792
incl. Pension Fund	*2,034*	*1,662*
Total staff costs	**60,426**	**51,516**

The number of the Group's employees at the end of 2019 is 1,493 (2018: 1,494 employees).

9 Other administrative expenses	**2019**	**2018**
Expenses on IT services	9,842	6,171
Consulting, legal and other professional services	5,864	4,751
Costs of advertising	4,857	4,271
Costs of hired services	4,166	1,523
Annual contribution to FOBR and DGF	2,032	1,610
Materials	1,932	1,516
Tax expenses	1,050	480
Operating lease rents	370	4,215
Other	6,122	5,552
Total other administrative expenses	**36,235**	**30,089**

The item Consulting, legal and other professional services includes the amounts charged throughout the year for the services provided by the registered auditor of the Group which are as follows: for independent financial audit: BGN 352 thousand (2018: BGN 370 thousand), for advisory services: BGN 100 thousand (2018: 122 thousand), and for other non-audit services: BGN 32 thousand (2018: BGN 38 thousand).

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

10 Tax expenses

	2019	2018
Current income tax expense	6,842	4,409
Deferred tax benefit relating to the origination and reversal of temporary differences	(374)	10
Income tax recognised in profit or loss	**6,468**	**4,419**

The applicable income tax rate is 10% in 2019 and 2018.

The movement in the current income tax receivables is as follows:

	2019	2018
Receivable / (liability) as at 1 January	2,035	1,823
Current tax recognised in profit or loss	(6,842)	(4,532)
Current tax recognised in other comprehensive income (Note 28)	194	123
Tax refunded during the year	(1,730)	(1,580)
Amounts paid during the year	6,189	6,202
(Liability)/receivable at 31 December	**(154)**	**2,035**

The reconciliation between the income tax expense and the accounting profit multiplied by the tax rate applicable for the years ending 31 December 2019 and 2018 is presented below:

	2019	2018
Profit before tax	51,200	32,743
Nominal tax rate	*10%*	*10%*
Tax on the basis of the nominal tax rate	5,120	3,274
Effects of different nominal tax rates in other jurisdictions	302	(905)
Tax effect of non-deductible income, net	778	2,654
Tax effect of non-taxable income	267	(605)
Tax expenses		
Effective tax rate	**6,468**	**4,419**

The movement of deferred taxes is related to the following temporary differences:

	2019	2018
Increase in unused leaves provision	(8)	(7)
Increase in retirement benefit liability	(40)	(20)
Increase in other payables provision	(95)	-
Increase in bonus provision	42	(14)
IFRS adoption	(273)	(51)
Deferred income tax benefit recognized in profit or loss	(374)	(92)

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

10 Tax expenses (continued)

The movement of taxes recognised in other comprehensive income relates to the following temporary differences:

Revaluation of available-for-sale financial assets	(194)	(123)
Tax benefit recognised in other comprehensive income	**(194)**	**(123)**

Deferred taxes at 31 December 2019 и 2018:

	2019	**2018**
Deferred tax assets		
Unused leaves provision	78	70
Retirement benefits	60	20
Other payables provision	95	-
Bonus accrual	542	425
Total deferred tax assets	**775**	**515**
Deferred tax liabilities		
Related to differences till IFRS	-	114
Total deferred tax liabilities	**775**	**401**

11 Cash on hand and cash in accounts with Central banks

	2019	**2018**
Cash on hand	11,047	9,962
Cash in accounts with Central banks, other than Minimum statutory reserve	28,505	58,960
Cash and cash equivalents for the purposes of cash flows (Note 29)	**39,552**	**68,922**
Minimum statutory reserve	58,106	51,642
Total cash on hand and cash in accounts with Central banks	**97,658**	**120,564**

As at 31 December 2019, the statutory minimum reserves held with the Bulgarian National Bank (BNB) amounted to 10% (2018: 10%) of the deposits attracted, except: 5% of funds attracted from abroad and 0% of funds attracted from other local banks, through branches of a local bank abroad, as well as through debt/equity (hybrid) instruments, as subordinated term debt. As at 31 December 2019, the statutory minimum reserves held at the National Bank of Romania (NBR) amounted to 8% of the funds attracted in new Romanian Lei and 8% of the funds attracted in currencies other than new Romanian Lei, except of funds attracted from other local banks and funds attracted with residual maturity of less than two years without early termination clauses. The statutory minimum reserves are not available for use in the Bank's day-to-day operations. BNB can charge interest on the statutory minimum reserves and excess reserves, and the interest charged may be a negative figure, while those in NBR are positive and interest-bearing.

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

12 Placements with other banks

	2019	2018
Deposits with foreign banks with original maturity of up to three months	382	2,338
Deposits with local banks with original maturity of up to three months	-	10,256
Deposits with local banks with original maturity from one to six months	7,824	-
Current accounts with foreign banks	3,503	4,484
Current accounts with local banks	1,173	47
Impairment allowances for expected credit losses	(3)	(5)
Included in cash and cash equivalents for the purpose of the cash flows (Note 29)	**4,676**	**8,799**
Total placements with other banks	**12,879**	**17,120**

As at 31 December 2019 deposits serving as collateral on derivatives, as disclosed in Note 27, are included in Deposits with local banks with original maturity from one to six months.

13 Financial assets at fair value through other comprehensive income

	2019	2018
Government debt securities traded in an official market		
Government securities Romania	63,975	39,016
Government securities Republic of Serbia	7,566	3,500
Government securities Croatia	11,601	1,827
Total government debt securities traded in an official market	**83,142**	**44,343**
Other debt securities traded in an official market		
Financial institutions	23,958	10,716
Total other debt securities traded in an official market	**23,958**	**10,716**
Equity securities not traded in an official market	92	92
Equity securities traded in an official market	4,433	11,226
Total equity securities	**4,525**	**11,318**
Total financial assets at fair value through other comprehensive income	**111,625**	**66,377**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

13 Financial assets at fair value through other comprehensive income (continued)

On 25 March 2019 the Group bought corporate bonds from Mogo Finance at a market price of EUR 98/100 bonds, and on 27 March 2019 it bought corporate bonds from the Black Sea Trade and Development Bank at a market price of USD 103.01/100 bonds, which are recognized as other debt securities traded in official stock market.

Debt securities as of 31 December 2019 consist of corporate and government securities. Government debt securities consist of six types of bonds issued by the Republic of Romania, one bond by the Republic of Serbia and one bond by the Republic of Croatia. Romanian bonds are issued in EUR: they mature on 8 December 2026 with coupon of 2.00%, on 26 February 2021 with coupon of 1.25%, on 28 October 2024 with coupon of 2.88 %, and on 29 October 2025 with coupon of 2.75 %, on 13 December 2023 with coupon of 1.00% and on 19 April 2027 with coupon of 2.38%, respectively. Interest accumulated as at 31 December 2019 amounts to BGN 150 thousand. The bonds issued by the Republic of Serbia and Republic of Croatia are issued in US Dollars and mature on 25 February 2020 with annual coupon of 4.88% and on 14 July 2020 with annual coupon of 6.63%, respectively. Interest accumulated as at 31 December 2019 amounts to BGN 57 thousand and BGN 25 thousand, respectively.

Other securities consist of two types of corporate bonds issued by 4Finance EOOD, one bond issued by Mogo Finance and one bond issued by Black Sea Trade and Development Bank. The corporate bonds of 4Finance are part of an USD issue maturing on 01 May 2022 with annual coupon of 10.75 %; the second type consists of EUR bonds maturing on 23 May 2021 with annual coupon of 11.25 %. Interest accumulated as at 31 December 2019 amounts to BGN 149 thousand. The corporate bond of Mogo Finance is issued in EUR with maturity on 10 July 2022 with coupon of 9.50% and interest accumulated amounting to BGN 178 thousand. The corporate bond of Black Sea Trade and Development Bank is issued in USD with maturity on 06 May 2021 and with coupon of 4.88%. Debt securities are measured at fair value based on quoted market prices at the date of the financial statements.

14 Loans to customers

	2019	2018
Loans extended by the Group to:		
Corporate customers	134,379	103,952
Individuals	570,871	483,696
Staff	1,690	1,908
Total loans to customers	**706,940**	**589,556**
Impairment allowances for expected credit losses (Note 16)	(81,191)	(74,915)
Total net loans to customers	**625,749**	**514,641**

Loans to customers are recognized at amortised cost, except for the loans to individuals at the amount of BGN 6,191 thousand (2018: nil), which as at 31 December 2019 are reported at fair value through profit or loss. As at 31 December 2019 the revaluation to fair value amounts to BGN 752 thousand (2018: nil).

Loans to customers include interest accrued of BGN 16,133 thousand (2018: BGN 14,934 thousand). Loans to customers bearing floating interest rates amount to BGN 113,357 thousand (2018: BGN 101,539 thousand), and loans to customers bearing fixed interest rate amount to BGN 593,583 thousand (2018: BGN 505,886 thousand).

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

15 Finance leases

	2019	2018
Within 1 year	8,183	15,578
From 1 to 5 years	5,137	6,099
Over 5 years	460	15
Gross investment in lease contracts	**13,780**	**21,692**
Unrealised finance income	(1,625)	(3,823)
Gross amount before provisions	**12,155**	**17,869**
Less: impairment allowances for expected credit losses	(954)	(1,010)
Net amount of lease payments	**11,201**	**16,859**

At 31 December 2019 the Group had no revocable sub-lease contracts.

16 Impairment loss allowances

Impairment loss allowance on loans extended to customers as at 31 December 2019 are presented in the table below by phase and type of customer:

Impairment loss allowance (for expected credit losses) on loans extended and leases	**Balance at 01.01.2019**	**Allowance on loans acquired**	**Changes in accrued credit impairment**	**Changes in accrued credit impairment**	**Foreign currency differences**	**Balance at 31.12.2019**
Phase 1	**(16,186)**	**(284)**	**(1,568)**	**1,382**	**388**	**(16,268)**
Corporate customers	(798)	-	(208)	-	290	(716)
Individuals	(15,388)	(284)	(1,360)	1,382	98	(15,552)
Collectively assessed	(16,126)	(284)	(1,578)	1,382	392	(16,215)
Individually assessed	(60)	-	11	-	(3)	(53)
Phase 2	**(8,779)**	**(333)**	**437**	**(215)**	**714**	**(8,176)**
Corporate customers	(430)	-	(848)	-	694	(583)
Individuals	(8,349)	(333)	1,285	(215)	20	(7,593)
Collectively assessed	(8,715)	(333)	447	(215)	709	(8,107)
Individually assessed	(64)	-	(10)	-	6	(68)
Phase 3	**(50,961)**	**(1,239)**	**(37,288)**	**31,921**	**(134)**	**(57,701)**
Corporate customers	(5,096)	-	(1,201)	247	(816)	(6,866)
Individuals	(45,865)	(1,239)	(36,088)	31,675	682	(50,835)
Collectively assessed	(46,758)	(1,239)	(36,603)	31,638	(140)	(53,103)
Individually assessed	(4,202)	-	(686)	284	6	(4,598)
Total impairment loss allowance (for expected credit losses) on loans extended	**(75,926)**	**(1,856)**	**(38,421)**	**33,089**	**968**	**(82,145)**

Notes to the consolidated financial statements (continued)

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

16 Impairment loss allowances (continued)

Impairment loss of financial assets 2019	Phase 1	Phase 2	Phase 3	Total
Financial assets at fair value through other comprehensive income	(89)	-	-	**(89)**
Placements with other banks	3	-	-	**3**
Loans to customers and leases	(1,568)	437	(29,367)	**(30,498)**
including: income from sale of debts	-	-	7,923	7,923
Total impairment loss of financial assets	**(1,654)**	**437**	**(29,366)**	**(30,584)**

Impairment loss allowance (for expected credit losses) on loans extended and leases	Balance at 01.01.2018	Changes in accrued credit impairment	Credits written off against provision	Foreign currency differences	Balance at 31.12.2018
Phase 1	**(10,950)**	**(5,715)**	**442**	**37**	**(16,186)**
Corporate customers	(498)	(311)	-	12	(797)
Individuals	(10,453)	(5,403)	442	25	(15,389)
Collectively assessed	(10,837)	(5,797)	442	65	(16,126)
Individually assessed	(114)	83	-	(29)	(60)
Phase 2	**(6,618)**	**(2,389)**	-	**227**	**(8,779)**
Corporate customers	(175)	(481)	-	227	(430)
Individuals	(6,442)	(1,908)	-	0	(8,350)
Collectively assessed	(6,558)	(2,265)	-	108	(8,715)
Individually assessed	(60)	(124)	-	119	(64)
Phase 3	**(30,239)**	**(45,667)**	**24,976**	**(31)**	**(50,961)**
Corporate customers	(5,351)	(302)	543	14	(5,096)
Individuals	(24,888)	(45,365)	24,433	(45)	(45,865)
Collectively assessed	(25,220)	(46,010)	24,433	38	(46,759)
Individually assessed	(5,019)	343	543	(69)	(4,202)
Total impairment loss allowance (for expected credit losses) on loans extended	**(47,807)**	**(53,770)**	**25,419**	**233**	**(75,926)**

Impairment loss of financial assets 2018	Phase 1	Phase 2	Phase 3	Total
Financial assets at fair value through other comprehensive income	(52)	-	-	**(52)**
Placements with other banks	(5)	-	-	**(5)**
Loans to customers	(5,715)	(2,389)	(35,402)	**(43,506)**
including: income from sale of debts	-	-	10,265	**10,265**
Total impairment loss of financial assets	**(5,772)**	**(2,389)**	**(35,402)**	**(43,563)**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

17 Structure of the loan portfolio by economic sectors

The structure of the loan portfolio by economic sectors is as follows:

	2019	2019	2018	2018
Construction and real estate	64,202	9.08%	25,553	4.33%
Services	21,852	3.09%	38,927	6.60%
Commerce	16,147	2.28%	14,524	2.46%
Tourism	12,702	1.80%	8,893	1.51%
Agriculture	10,078	1.43%	10,115	1.72%
Manufacturing	8,813	1.25%	5,829	0.99%
Other financial institutions	585	0.08%	111	0.02%
Individuals	570,871	80.75%	483,696	82.04%
Staff	1,690	0.24%	1,908	0.32%
Total loans to customers	**706,940**	**100.00%**	**589,556**	**100.00%**

The ten largest loans to customers as of 31 December 2019 represent 6.03% of the Group's portfolio, net of provisions (2018: 6.27%).

18 Assets acquired from foreclosure on collateral

	2019	2018
Assets repossessed, incl.:		
Book value	9,719	10,981
Accumulated impairment	(1,494)	(878)
Total assets acquired from foreclosure on collateral	**8,225**	**10,103**

At 31 December 2019 assets repossessed by the Group under terminated or past due loan contracts amounted to BGN 8,225 thousand net of impairment (2018: BGN 10,103 thousand). The Group accrued impairment of BGN 1,494 thousand at 31 December 2019 (2018: BGN 878 thousand), where the position Assets repossessed is presented net of impairment.

In 2019, through sales, the Group sold assets reported in these category at the amount of BGN 1,146 thousand (2018: BGN 5,272 thousand). The impairment written off on these assets is BGN 95 thousand (2018: nil). In 2019 and 2018 the Group did not acquire assets to be classified as Assets acquired from foreclosure on collateral.

The Group intends to sell the Assets acquired from foreclosure on collateral within the next reporting periods depending on market conditions and if the best price can be achieved.

The movement in the impairment of assets acquired from foreclosure on collateralis as follows:

At 1 January 2018	**899**
Impairment charged	-
Impairment written off	(21)
At 31 December 2018	**878**
Impairment charged	711
Impairment written off	(99)
Foreign currency difference	4
At 31 December 2019	**1,494**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

19 Intangible assets

	Software	Other	Total
Balance at 1 January 2018			
Book value	7,710	363	8,073
Accumulated amortisation	(5,342)	-	(5,342)
Carrying amount	**2,368**	**363**	**2,731**
Year ending 31 December 2018			
Carrying amount at the beginning of the year	2,368	363	2,731
Additions	1,088	2,855	3,943
Transfers	-	-	-
Foreign currency differences	-	-	-
Amortisation	(1,034)	-	(1,034)
Carrying amount at the year-end	**2,422**	**3,218**	**5,640**
As of 31 December 2018			
Book value	8,573	3,217	11,790
Accumulated amortisation	(5,342)	-	(5,342)
Carrying amount at the year-end	**3,232**	**3,217**	**6,449**
Year ending 31 December 2019			
Carrying amount at the beginning of the year	3,232	3,217	6,449
	173	36	209
Additions	2,111	3,515	5,626
Disposals	-	(29)	(29)
Transfers	20	(20)	-
Foreign currency differences	(24)	-	(24)
Amortisation	(1,392)	(5)	(1,397)
Carrying amount at the year-end	**4,119**	**6,714**	**10,833**
At 31 December 2019			
Book value	10,830	6,728	17,558
Accumulated amortisation	(6,711)	(14)	(6,725)
Carrying amount at the year-end	**4,119**	**6,714**	**10,833**

At the end of 2019, the book value of intangible assets, fully amortised, but still in use, amounted to BGN 4,440 thousand (2018: BGN 3,518 thousand).

Notes to the consolidated financial statements (continued)

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

20 Property and equipment	Buildings	Equipment	Motor vehicles	Leasehold improvements	Right-of-use assets		Total
					Buildings	Other assets	
At 31 December 2018							
Book value	10,661	7,777	1,620	613	-	-	20,670
Accumulated depreciation	(1,444)	(5,893)	(1,426)	(432)	-	-	(9,195)
Carrying amount	**9,217**	**1,884**	**194**	**181**	**-**	**-**	**11,475**
Year ended 31 December 2018							
Carrying amount at the beginning of the period	9,217	1,884	194	181	-	-	11,476
Additions	193	936	20	171	-	-	1,320
Disposals	-	-	(20)	-	-	-	(20)
Impairment	-	-	-	-	-	-	-
Foreign currency differences	(7)	(3)	(1)	-	-	-	(11)
Depreciation	(328)	(765)	(62)	(118)	-	-	(1,273)
Carrying amount at the year-end	**9,075**	**2,052**	**131**	**234**	**-**	**-**	**11,493**
At 31 December 2018							
Book value	10,796	8,548	1,546	785	-	-	21,675
Accumulated depreciation	(1,721)	(6,496)	(1,414)	(551)	-	-	(10,182)
Carrying amount	**9,075**	**2,052**	**132**	**234**	**-**	**-**	**11,493**
Year ended 31 December 2019							
Carrying amount at the beginning of the period	9,075	2,052	132	234	-	-	11,493
First time adoption of IFRS 16	-	-	-	-	6,028	806	6,834
Acquisition of a subsidiary	-	33	37	-	371	19	460
Additions	151	2,636	-	537	451	-	3,776
Disposals	-	(71)	-	-		-	(71)
Transfers	(72)	180	(19)	(108)	-	-	(19)
Impairment	-	-	-	-	-	-	-
Foreign currency differences	(180)	(13)	(3)	(6)	(82)	-	(285)
Depreciation	(293)	(734)	(78)	(119)	(2,402)	(299)	(3,925)
Carrying amount at the year-end	**8,681**	**4,083**	**69**	**538**	**4,366**	**526**	**18,263**
At 31 December 2019							
Book value	10,693	11,523	1,492	1,215	9,888	1,404	36,215
Accumulated depreciation	(2,012)	(7,440)	(1,423)	(677)	(5,522)	(878)	(17,952)
Carrying amount	**8,681**	**4,083**	**69**	**538**	**4,366**	**526**	**18,263**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

20 Property, plant and equipment (continued)

Motor vehicles with book value of BGN 20 thousand and accumulated depreciation thereon of BGN 20 thousand were written off in 2019. In 2018, motor vehicles with book value of BGN 259 thousand and accumulated depreciation thereon of BGN 259 thousand were written off.

At the end of 2019, the book value of property and equipment, fully depreciated, but still in use, amounted to BGN 4,755 thousand (2018: BGN 5,891 thousand).

21 Other assets

	2019	2018
Prepayments	3,864	2,460
Other receivables	2,438	1,861
Receivables from suppliers	2,332	1,754
Other taxes and government agencies	1,272	928
Collateral MasterCard	905	884
Rental deposits	165	331
Assignment receivables	38	-
Court fees	32	-
Insurance receivables	-	627
VAT refundable	-	209
Total other assets	**11,046**	**9,054**

At 31 December 2019 and 31 December 2018, other receivables are neither past due nor impaired, and are classified in Phase 1. Other financial assets comprise monthly receivables on assignment contracts at amortised cost.

22 Due to banks

	2019	2018
Due to banks	25,507	5,033
Total deposits due to banks	**25,507**	**5,033**

Deposits due to banks at 31 December 2019 comprise short-term deposits on the interbank money market with residual maturity of 1 month.

23 Due to customers

	2019	2018
Corporate customers		
- current/settlement accounts	34,211	34,377
- term deposits	25,547	57,274
Individuals		
- current/settlement accounts	52,364	41,734
- term deposits	496,868	396,548
Total deposits due to customers	**608,990**	**529,933**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

23 Due to customers (continued)

Deposits due to customers at the end of 2019 include interest payable of BGN 3,616 thousand (2018: BGN 2,313 thousand), with an average interest rate of 1.54% (2018 : 1.8%).

24 Other borrowings

	2019	2018
State Fund "Agriculture"	10	112
Lease liabilities	4,976	-
Loan received	870	-
Total other borrowings	**5,856**	**112**

At the end of 2019 as a result of the adoption of IFRS 16, Other borrowings include lease liabilities amounting to BGN 4,976 thousand, borrowings from State Fund "Agriculture" at the amount of BGN 10 thousand, a loan received from 4Finance S.A., Luxembourg, at the amount of BGN 870, which is used for financing operating activities. Interest accrued with regard to the borrowings from State Fund "Agriculture", is BGN 0.01 thousand (2018: BGN 0.07 thousand). The borrowings from State Fund "Agriculture" bear a fixed interest rate of 0 %.

Effect from IFRS 16 adoption as at 1 January 2019	**6,897**
Newly-acquired assets	841
Interest accrued	71
Payments	(2,833)
At 31 December 2019	**4,976**

As at 31 December 2019 interest expenses related to lease liabilities amount to BGN 90 thousand.

25 Other liabilities

	2019	2018
Payables to traders and suppliers	17,490	11,864
Prepaid repayment instalments on loans to individuals	13,337	13,427
Payables to employees	5,395	4,104
Provisions	1,121	-
Other liabilities	1,226	885
Unused leave provisions	836	1,285
Provisions for defined employee benefits	1,354	196
Tax payable, other than income tax	738	792
Transfers for execution	137	639
Total other liabilities	**41,634**	**33,192**

Prepaid repayment instalments on loans to individuals represent instalments that have not matured yet. Upon request by a customer, the Group is obliged to repay the amounts to the respective borrower. The litigation provisions accrued as of 31 December 2019 amount to BGN 54 thousand (2018: nil).

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

26 Contingent liabilities and irrevocable commitments

The Group's contingent liabilities are related to its commitments to extend loans, credit lines, letters of credits and guarantees intended to meet the requirements of the bank customers.

Contingencies on loans and credit lines extended by the Group represent contractual commitments to unconditionally provide a specified amount to the customer under the provisions of the loan agreement, in the part related to the utilisation, as well as an obligation of the Group to maintain continuously amounts available up to those agreed to in the credit line agreements. Upon expiry of the fixed deadline the obligation, regardless of whether utilised or not, expires as well as the contingency for the Group.

Guarantees and letters of credit oblige the Group, if necessary, to make a payment on behalf of the customer – if the customer fails to discharge its obligations within the term of the agreement. At that time the Group recognises the provision in its financial statements for the period of the occurred change.

The contingent liabilities and irrevocable commitments of the Group at 31 December 2019 and 31 December 2018 are as follows:

	2019	2018
Guarantees		
Corporate customers	703	938
Undrawn credit commitments		
Corporate customers	7,608	6,428
Individuals	26,291	23,120
Total contingent liabilities and irrevocable commitments	**34,602**	**30,486**

27 Pledged assets

As of 31 December 2019, the Group pledged as collateral deposits placed with foreign banks of BGN 382 thousand (2018: BGN 2,338 thousand) and with local banks of BGN 7,821 thousand (2018: 5,983) against derivative contracts concluded (FX swaps), representing economic hedging transactions of the currency risk found. The Group has no right to dispose of the deposits provided as collateral prior to the expiry of the economic hedge contract term. The outcome of FX risk hedging at 31 December 2019 and 31 December 2018 is summarized in Note 2b. Other assets consist of a guarantee deposit to the benefit of Mastercard of BGN 688 thousand (2018: BGN 884 thousand).

	2019	2018
Placements with foreign banks	382	2,338
Placements with local banks	7,821	5,983
Other assets	688	884
Total pledged assets	**8,891**	**9,205**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

28 Equity

The total number of the registered ordinary dematerialised shares at 31 December 2019 is 81,600,000 (2018: 81,600,000), with nominal value of BGN 1 each. All shares are fully paid-in and vest equal voting rights.

The Group's management has not changed its capital management methodology as compared to 2018.

Share capital
The table below presents the majority shareholders of the Group at the end of 2019 and 2018:

	31 December 2019		31 December 2018	
	BGN	%	BGN	%
TBIF Financial Services B.V.	81,600,000	100.00%	81,600,000	100.00%
Total	**81,600,000**	**100.00%**	**81,600,000**	**100.00%**

Reserve from translation of financial statements of foreign operations

The reserve from translation of financial statements of foreign operations as at 31 December 2019 amounts to BGN (1,004) thousand (2018: BGN (810) thousand) and includes the translation of the operations of the branch of the Group in Romania from its functional currency – the new Romanian lei (RON) into the presentation currency of the Group – Bulgarian leva.

Revaluation reserve

Revaluation reserve on financial assets at fair value through other comprehensive income includes unrealised gains and losses on fair value movements of the instruments. The annual movements are included in the statement of comprehensive income. As at 31 December 2019, the accumulated revaluation reserve amounted to BGN (6,549) thousand (2018: BGN (715) thousand).

Statutory reserves

In accordance with the requirements of the Commercial Act the Bank is required to set Reserves Fund equalling at least 1/10 of the profit, which is set aside until the fund reaches 1/10 or more of the capital set out in the Statutes.

If the amounts in the Reserves Fund fall below the minimum the Group is obliged to fill the gap, so as to recover the minimum level over a period of two years. Under the provisions of the banking legislation, banks are not allowed to pay dividends before they make the required contributions. As at 31 December 2019, the Reserves Fund amounted to BGN 8,392 thousand (2018: BGN 8,392 thousand).

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

29 Cash and cash equivalents

	2019	2018
Cash at central banks other than the minimum statutory reserve (Note 11)	39,552	68,922
Placements with other banks (Note 12)	4,676	8,799
Total cash and cash equivalents	**44,228**	**77,721**

Deposits with foreign banks provided by the Group as collateral are not included cash and cash equivalents, as disclosed in Note 27.

The following table summarises the changes in the liabilities from financing activity, including cash flows-related changes and non-cash changes, and contains a reconciliation of opening and closing balances of the liabilities originating from financing activity in the statement of financial position for the year ended 31 December 2019.

	1 January 2019	Cash in-flows	Cash out-flows	Effect of changes in exchange rates	Accrued under the effective interest rate method	New lease contracts	Others	31 December 2019
Current interest-bearing loans and borrowings	112	-	2,058	-	-	2,826	-	880
Lease liabilities	6,897	-	2,833	-	71	841	-	4,976
Dividends paid	-	-	15,647	-	-	-	-	-
Total liabilities from financing activity	**6,994**	**-**	**20,538**	**-**	**86**	**3,667**	**-**	**5,856**

	1 January 2018	Cash in-flows	Cash out-flows	Effect of changes in exchange rates	Accrued under the effective interest rate method	New lease contracts	Others	31 December 2018
Current interest-bearing loans and borrowings	**502**	-	390	-	-	-	-	**112**
Total liabilities from financing activity	**502**	**-**	**390**	**-**	**-**	**-**	**-**	**112**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

30 Related party transactions

In the ordinary course of business the Group carries out bank transactions with related parties based on the principle of equality and party's independence, these are carried out at contract prices. These include mostly loans and deposits, and also purchase of receivables with the aim to invest the Group's free cash. As at 31 December 2019, the Group did not set aside provisions for overdue receivables relating to funds provided to related parties (2018: nil). Such evaluation is carried out annually, by conducting an analysis of the financial position and the market in which these related parties operate.

Other related parties
4finance Oy, Finland, AS 4Finance, Latvia, Credit Service UA, Sia Vivus, Sia Ondo, 4Finance Spain Financial Services SA, 4Finance Holding S.A., Luxembourg;, 4Finance Group S.A., Luxembourg, 4Finance S.A., 4Finance Next EOOD, 4Finance AB, Sweden and Zaplo SP Z O O, Poland, are other related parties to the Group as they are under common control of the ultimate parent.

Parent company
As at 31 December 2019, the Group is controlled by TBIF Financial Services B.V. (registered in the Netherlands), which holds 100% of the ordinary dematerialised shares of the Bank.

Ultimate parent company
The ultimate parent company is Tirona Limited, Cyprus.

The balances and deals with the other related parties from the TBIF Group, as well as the related income and expenses, are as follows:

31 December 2019	Parent company	Other related parties	Total
Debt securities	-	10,546	10,546
Loans extended	-	5	5
Borrowings	981	9,311	10,292
Acquisition of a company	5,253		5,253
Acquisition of receivables	-	7,550	7,550
Interest income	-	1,181	1,181
Fee and commission income	4	1,055	1,059
Other operating income	-	729	729
Other operating expenses	-	11	11

31 December 2018	Parent company	Other related parties	Total
Debt securities	-	10,716	10,716
Loans extended		49	49
Borrowings	60	1,798	1,858
Acquisition of receivables	-	7,550	7,550
Interest income	-	1,048	1,048
Fee and commission income	1	610	611

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

30 Related party transactions (continued)

In 2019, transactions with related parties were carried out in the ordinary course of the business of the Group.

The total remuneration paid to key management staff in 2019 amounts to BGN 1,335 thousand (2018: BGN 1,073 thousand). Key management staff consists of the members of the management and supervisory boards. The accrued but not paid remuneration to the directors and the key management staff as at 31 December 2019 amounts to BGN 1,858 thousand (2018: BGN 1,369 thousand) and are short-term in its nature. Other benefits were not paid to management, including pension plans, share based payments, etc.

Acquisition of 4Finance EOOD

In 2019, the management board of the Bank decided to purchase all shares of 4Finance EOOD stock, namely 8,100,000 (eight million and one hundred thousand) shares, representing 100% (one hundred percent) of the capital of the company. The market value is determined by an external independent appraiser. The fair market value of the shares is estimated at EUR 2,686,000 (two million six hundred and eighty-six thousand). The assets and liabilities of the company at initial consolidation (1 January 2019) are presented below.

In view of the fact that before the transaction 4Finance EOOD and TBI Bank EAD are under common control, the management of the Bank has determined that the appropriate method for recording the acquisition is the pooling-of-interests method (see Note 1aa).

	1 January 2019
ASSETS	
Cash on hand and cash equivalents	1,139
Loans granted to customers	4,945
Other assets	286
Intangible assets	209
Property, equipment and right-of-use assets	70
Deferred tax assets	157
Total assets	**6,806**
LIABILITIES	
Other borrowings	2,861
Other liabilities	1,947
Total liabilities	**4,808**
EQUITY	
Share capital	8,100
Accumulated profit (loss)	(6,102)
Total equity	**1,998**
Total liabilities and equity	**6,806**

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

31 Disclosure under Art. 70 of the Credit Institutions Law

Data presented below are data as at 31 December 2019 and does not include any consolidation eliminations:

Name	Description of the activity	Registered address	Turnover amount*	Number of employees	Pre-tax profit	Tax accrued	Profitability on assets
Bulgaria:							
TBI Bank EAD Bulgaria	Corporate and consumer (retail) lending, public attraction of deposits and other refundable funds, activities of an investment intermediary, payment services, trading in foreign currency and precious metals on own account or on customer's account, guarantee transactions, and any other activities determined by an ordinance of Bulgarian National Bank	Sofia	166,357	977	44,335	4,500	5%
4 FINANCE EOOD Bulgaria	Consumer lending	Sofia	11,986	62	1,341	133	17%
Romania:							
TBI Bank – Romania Branch	Corporate and consumer (retail) lending, public attraction of deposits and other refundable funds, payment services, trading in foreign currency and precious metals on own account or on customer's account, guarantee transactions, and any other similar activities, determined by an ordinance of Romanian National Bank	Bucharest	15,262	135	(1,975)	0	(1%)
TBI Credit IFN S.A. Romania	Consumer lending	Bucharest	52,545	526	3,710	1,623	4%
TBI Leasing IFN S.A. Romania	Provision of assets under finance leases	Bucharest	2,613	73	1,044	212	10%

All amounts are presented in thousands of Bulgarian leva, unless otherwise stated.

Notes to the consolidated financial statements (continued)

31 Disclosure under Art. 70 of the Credit Institutions Law (continued)

Data presented below are data as at 31 December 2018 and does not include any consolidation eliminations:

Name	Description of the activity	Registered address	Turnover amount*	Number of employees	Pre-tax profit	Tax accrued	Profitability on assets
Bulgaria:							
TBI Bank EAD Bulgaria	Corporate and consumer (retail) lending, public attraction of deposits and other refundable funds, activities of an investment intermediary, payment services, trading in foreign currency and precious metals on own account or on customer's account, guarantee transactions, and any other activities determined by an ordinance of Bulgarian National Bank	Sofia	139,333	859	32,178	2,711	5%
Romania:							
TBI Bank – Romania Branch	Corporate and consumer (retail) lending, public attraction of deposits and other refundable funds, payment services, trading in foreign currency and precious metals on own account or on customer's account, guarantee transactions, and any other similar activities, determined by an ordinance of Romanian National Bank	Bucharest	13,463	134	(4,032)	0	(2%)
TBI Credit IFN S.A. Romania	Consumer lending	Bucharest	44,800		(3,552)	1,583	(14%)
TBI Leasing IFN S.A. Romania	Provision of assets under finance leases	Bucharest	2,240	616	791	125	9%

32 Events after the balance sheet date

Coronavirus (COVID-19) pandemic

The coronavirus ("COVID-19") pandemic was confirmed by the World Health Organization at the beginning of 2020. The COVID-19 cases spread from China to the rest of the world, causing disruption to normal business operations. On 8 March 2020, Bulgaria announced the first COVID-19 cases. On 13 March 2020, the National Assembly of the Republic of Bulgaria declared a nationwide state of emergency due to the coronavirus outbreak and imposed harsh preventive measures and tight restrictions.

Notes to the consolidated financial statements (continued)

32 Events after the balance sheet date (continued)

In accordance with the measures introduced by the governments and central banks of Bulgaria and Romania, the management of the Group has taken and has already carried out a number of measures to limit the potential future negative outcomes and impact of the COVID-19 outbreak. The key actions taken include:

- a contingency plan has been launched;
- critical functions have been identified and the scope of duties of staff in relation to these have been determined in order to ensure continuity;
- safe and healthy work environment and the option for remote work have been provided;
- active monitoring and management of inflows and outflows is carried out and remote daily communication – as a matter of priority – is established with borrowers;
- ad hoc monitoring and assessment of credit risk exposure – the risk of a borrower defaulting – within the timeframe of 3 to 6 months;
- a number of preventive measures have been taken to protect the staff – the Group has purchased personal hygiene and disinfection products for its employees;
- instructions are issued and given to all employees in relation to their conduct in the current situation, the organization of and participation in business meetings, business trips and trips abroad, participation in mass events and taking annual leave;
- customer service organization plan has been drawn up.

Management is ready to implement measures with the aim of limiting the effects of the pandemic outbreak risks on the Group's assets and business operations.

The spread of COVID-19 has already been assessed as an event having a substantial impact on the global demand and supply of economic and financial resources. This has led to considerable uncertainty in the economic activity of many businesses and entities. For the purposes of the consolidated financial statements for 2019, management assesses the impact of COVID-19 outbreak as a non-adjusting event that occurred after the balance sheet date. At the current stage of the coronavirus spread and the dynamics with which it develops, it is practically impossible to make a reliable assessment and determine the potential effects of the pandemic on the operations and, in particular, on the lending activities, the quality of the loan portfolio, the assets and the economic development of the Bank and its subsidiaries.

Besides the above events, no other material events have occurred after the balance sheet date, which may require adjustments or disclosures in the financial statements as at 31 December 2019.