TBI BANK EAD

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

31 DECEMBER 2020

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

**Registered tradename and UIC**
TBI Bank EAD
131134023

**Representation (by any two executive directors jointly)**
Valentin Galabov
Alexander Dimitrov
Nikolay Spasov
Florentina Mircea

**Registered office**
Dimitar Hadjikotsev Str. 52-54
Sofia 1421, Bulgaria

**Joint auditors**
Ernst and Young Audit OOD
Tsarigradsko Chausse Blvd. 47A, PO box 1124
Sofia, Polygraphia Office Center, Bulgaria

and

AFA OOD
Oborishte Str. 38
Sofia 1504, Bulgaria

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TBIBank

| | |
|---|---|
| AA | Accountancy Act |
| Bank | TBI Bank EAD |
| BNB | Bulgarian National Bank |
| CA | Commercial Act |
| EBA | European Banking Authority |
| ECL | expected credit losses |
| EIR | effective interest rate |
| EU | European Union |
| FSC | Financial Supervision Commission |
| FVOCI | fair value through OCI |
| FVPL | fair value through profit or loss |
| Group | TBI Bank EAD and its subsidiaries |
| IAS # | International Accounting Standard # |
| IAS | International Accounting Standards |
| ICFRS | IFRS Interpretations Committee |
| IFRS # | International Financial Reporting Standard # |
| IFRS | International Financial Reporting Standards |
| MFIA | Markets in Financial Instruments Act |
| NBR | National Bank of Romania |
| NCGC | National Corporate Governance Code |
| NPL | non-performing loans |
| OCI | other comprehensive income |
| POSA | Public Offering of Securities Act |
| SPPI | solely payments of principal and interest |

**Business and corporate information**

TBI Bank EAD (the Bank), with UIC 131134023, is a member of 4Finance Group, which as at 31 December 2020 holds 100% (81,600,000 shares) of the Bank's capital through TBIF Financial Services B.V.

TBI Bank EAD, together with its subsidiaries, offers a wide range of banking and financial services to local and foreign customers through its more than 197 offices and remote working stations, serviced by 1,099 employees (2019: 1,022 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 their 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) as well as 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 data, keeping of books and safeguarding customer data archives in compliance with local regulations, and specifically with 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 general 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, with a structure compliant with the requirements of the Independent Financial Audit Act (IFAA).

As at 31 December 2019 and 2020, TBI Bank EAD is the owner of TBI Money IFN S.A. (till 2020 called TBI Credit IFN S.A.), Romania; TBI Leasing IFN S.A., Romania; and 4Finance EOOD, Bulgaria (the Group).

The Bank holds a well-diversified customer portfolio. The adopted strategy focus on increased retail lending to individuals set the pattern for the significant growth of the loan portfolio, which characterised the Bank's operations in 2019 and 2020. Profitability levels remained solid, despite the increasingly higher cost of attracted funds. Concurrently, the maintenance of stable liquidity levels stood of key importance for the Bank, despite the expansion of its operations and the sharp increase in lending volumes.

**Financial position and performance**

In 2020, the Bank generated net interest income at the amount of BGN 155,122 thousand, representing a 5.18% increase compared to 2019 levels, which was attributable to the significant growth of the loan portfolio. The 2020 profit of the Bank amounted to BGN 16,467 thousand, compared to BGN 37,800 thousand in the previous year.

Operating revenues (net interest income, net fee and commission income, net trading gains and other net operating income) have grown by 0.45% during the reporting period as compared to the prior year.

The operating revenues' structure for 2020 was as follows: net interest income represented 94.66%, net fee and commission income – 8.35%, and the remaining components of net operating income accounted for a net loss of 3.01%.

In 2020, the total assets of the Bank went up by 17.57%, compared to the end of 2019 and reached BGN 1,029,984 thousand (Y2018: BGN 876,035 thousand). At the end of 2020, the largest increase by BGN 36,946 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 Bank's liabilities as of 31 December 2020 amounted to BGN 809,505 thousand (2019: BGN

673,697 thousand), 95.37% of which, or BGN 771,808 thousand (2019: BGN 641,043 thousand), represented deposits from customers and banks. A 20.30% increase (by BGN 124,933 thousand) in deposits from customers, and a more than 22.86% increase (by BGN 5,832 thousand ) in deposits from banks were realised in 2020.

| BGN'000 | 2020 | 2019 | 2018 |
|---|---|---|---|
| Total assets | 1,029,984 | 876,035 | 745,072 |
| Equity | 220,683 | 202,338 | 185,798 |

The Bank's equity went up by 9.07% in 2020 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 2020, this indicator stood at 31.40% (2019: 28.76 %), which demonstrated stability of the cash flows, and significantly exceeded the minimum required threshold of 20%.

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Liquidity ratio (%) | 31,40 | 28,76 | 31,41 |

**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. Bulgaria announced its first COVID-19 cases on 8 March 2020. 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 been assessed as an event having a substantial impact on the global demand and supply of economic and financial resources, leading to considerable uncertainty in the economic activity of many businesses and entities. For the purposes of the 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.

On 3 April 2020 the Governing Council of the Bulgarian National Bank made a decision that it would comply with the Guidelines voted at the European Banking Authority (EBA) on legislative and non-legislative moratoria on loan repayments applied in light of the COVID-19 crisis (EBA/GL/2020/02), and EBA was notified to this effect. Subsequently, BNB approved a Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions, which provided opportunities for changes in the principal and/or interest payment schedule of liabilities, without changing any key parameters of the loan agreement. Similar measures were adopted by the Romanian authorities in line with the EBA guidelines. The above measures exericised moderate negative pressure on the financial performance of the Bank for 2020, with the major effect of the COVID-19 outbreak on the operations and profitability expressed through the diminished levels of new business in the first half of the year.

In accordance with the measures introduced by the governments and central banks of Bulgaria and Romania, the management of the Bank has taken 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 and the scope of duties of related staff have been identified in order to ensure continuity;
- safe and healthy work environment and the option for remote work have been provided;
- active monitoring and management of cash inflows and outflows has been carried out and remote daily communication – as a matter of priority – has been established with borrowers;
- ad hoc monitoring and assessment of potential credit risk exposure – the risk of a borrower defaulting – within the timeframe of 3 to 6 months;
- a number of preventive staff protection measures have been taken – the Bank has purchased and distributed personal hygiene and disinfection products for its employees;
- instructions have been issued and distributed to all employees in relation to their conduct, 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 Bank 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 Bank 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 Bank and the banking sector as a whole are:

- credit risk – the maximum exposure to credit risk as at 31 December 2020 amounts to BGN 987,070 thousand;
- liquidity risk – the net difference in liquidity of the assets and liabilities as at 31 December 2020 amounts to BGN 22,710 thousand;
- currency risk – to hedge its currency risk, the Bank uses currency swaps;
- interest rate risk – the effect of changes in interest rates by +/- 100 basis points on the 2020 profit would amount to +/- BGN 1,911 thousand;
- inflation risk;
- business risk;
- operational risk (including reputation risk).

In view of the current economic environment, business risk and credit risk exercise the greatest impact on the Bank's operations. To address these challenges, the Bank 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 Bank's policy is to set a minimum interest rate threshold for floating rate assets.

To manage credit risk the Bank has developed strict procedures for analysis and assessment of potential borrowers, including scoring procedures and detailed verification of the data provided. In addition, the Bank 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 Bank's internal rules.

**Research and development**

The Bank 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 financial statements, no other significant events have occurred after 31 December 2020, which may have an effect on the Bank's operations or may require adjustments in the financial statements.

**Future plans of the Bank**

The management of the Bank 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 Bank will continue to maintain adequate financial, managerial, and technical capacity as basis for efficient and thriving banking and financial activity.

The Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank is facing are related to:

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

(continued on the following page)

**Information required under art. 187(e) of the Commercial Act regarding treasury shares held, redeemed or transferred; information on the members of the supervisory and management boards**

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:
     - Hasson B.V.., the Netherlands – 50%
  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;
     - Demir-Halk Bank (Nederland) N.V., the Netherlands – member of the supervisory board;

- **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:
     - 4Finance Holding S.A., Luxembourg – member of the board of directors and chief executive officer;
     - 4Finance Group S.A., Luxembourg – member of the management board and chief executive officer;
     - AS 4Finance, Latvia – chairman of the board of directors;
     - 4Finance S.A., Luxembourg – chairman of the board of directors;
     - 4Spar AB, Sweden – deputy member of the board of directors;
     - 4Finance AB, Sweden – deputy member of the board of directors;
     - SIA 4Finance IT branch in Czech Republic – representative of the branch;
     - SIA 4Finance IT branch in Poland – representative of the branch;
     - Renmoney Microfinance Bank Ltd. – member 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:
     - GVW Business Point Advice S.R.L., Romania – 100 %;
  3) legal entities where he sits on the management or controlling bodies:

  - Nero Renewables N.V., the Netherlands – co-administrator in the Romanian subsidiaries;
  - GVW Business Point Advice S.R.L., Romania – administrator

- **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:
     - CREDiPORT AD, Bulgaria – 96.67%
  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 Mircea – 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;

- **Gergana Staykova – 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 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 Money IFN S.A. (till 2020 called TBI Credit IFN S.A.), Romania – member and chair of the board of directors; general manager

**Contracts signed in 2020 under art. 240 (b) of the Commercial Act; remuneration of board members**

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 2020 amounts to BGN 1,568 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 2020.

Management is required by Bulgarian legislation to prepare financial statements for each financial year that give a true and fair view of the financial performance of the Bank and of its financial position 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 27 April 2021 and signed on its behalf by:

**Valentin Galabov**
(executive director and
management board member)

**Alexander Dimitrov**
(executive director and
management board member)

TBI Bank EAD (the Bank) is a Bulgarian joint-stock company active in corporate and consumer lending, acceptance of deposits and other repayable funds from the public, investment intermediary services, payment services, dealing with foreign exchange and precious metals on own account or when executing customer orders, 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 Money IFN S.A. (till 2020 called 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 (hereafter collectively referred to as "the Group").

The goal of the Bank is to develop as a major player on the consumer lending market in Bulgaria and Romania by offering offline and online products and focusing mainly on cash 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 Bank has brought its operations in line with the requirements of anti-bribery and anti-corruption laws. The policy of the Bank is to carry out its 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 these areas 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 should inform the RCD 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 ensures 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 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 on the basis of 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, respectively 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 Bank enforces and observes the provisions of local labour law and of the health and safety at work legislation. The Bank 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 Bank.

About 1,099 employees work in the Bank and its related structures, with a 1:4 ratio of men to women. This number includes 105 employees, who were on parental leave at the time of the submission of the non-financial declaration.

The Bank applies the principle of equal pay for different genders for work with equal value. The people who work in the Bank are its most important assets and represent its best investment. This follows the Bank'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 Bank's goals.

In the activities related to human resource management and development the Bank attempts to ensure transparency and equality for employees, in providing 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 Bank. Additionally, by giving recommendation for specific professionals meeting the above requirements, the employees of the Bank 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 the Bank and support the professional orientation of young people.

For several years we actively supported the "Manager for a Day" initiative of Junior Achievement Bulgaria and gave 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 Bank to make sure that its employees consider their job rewarding and satisfying. To this purpose, the Bank organizes corporate team-building events and other initiatives that support team development and promote a feeling of “belonging”.

The Bank’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 Bank 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, 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 Bank has established and maintains several internal communication channels. In this way, the 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 and its subsidiaries 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.

The companies in the group of TBI Bank EAD, like any other company, leave their 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 years, we have made efforts to modernize our 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 products, 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 Bank.

After optimizing its own processes, the Bank would like to help both its customers and partners to change the way they think and do business in an environmentally friendly way. The Bank 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, the Bank is in a continuous process of replacing its vehicle fleet with more economical cars which meet the highest European Union exhaust emission standards.

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 using our influence and sharing 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 and its subsidiaries' customers are at the heart of the Bank's 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 Bank 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 2020, for the fourth 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 hospitals in Bulgaria and Romania in order to support the efforts to deal with the COVID-19 pandemics.

The main objective of the Bank 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.

**Valentin Galabov**
(executive director and
management board member)

**Alexander Dimitrov**
(executive director and
management board member)

## 1. Corporate profile

TBI Bank EAD (the Bank) is a 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 2020, the issued capital of the Bank amounts to BGN 81,600,000, 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 2020, the sole owner of the issued 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 a 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 of Ordinance 20 of the Bulgarian National Bank.

The Bank's structure consists of:

- general meeting of the shareholders;
- supervisory board;
- management board;
- other structural units, set by the general meeting of the shareholders, 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 company.

The annual general meeting of the shareholders takes place no later than 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 issued 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 issued capital;
- decide on any merger, demerger, transformation or closure of the Bank;
- appoint and dismiss the members of the supervisory board and establish their remuneration;
- appoint and dismiss the auditors of the Bank and sets their 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 supervisory or management boards, or a shareholder of the Bank;
- decide regarding the issuance of bonds;
- appoint 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 activities 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 three and no more than 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 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 or could face.

The members of the 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 conflict of interest and in case this 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 deputy chairpersons of the supervisory board replacing the chairperson if the latter is absent.

<u>The management board</u> 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 articles 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 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 years. The management board consists of at least three members but not more than seven members. At least 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, the chairperson of the management board and the deputy chairperson of the management board, standing in for the chairperson when the latter 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 a public interest entity under 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 the Bank's control systems and risk management. 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 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.
- **Impairment committee** – the body that decides on the classification and provisioning of the Bank's risk exposures.
- **Lending committee** – 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 **work safety unit** is responsible for the compliance with the statutory requirements in this area.
- **The retail banking committee** is 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 calibrating 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 execution of its responsibilities independently of the structural and supporting units that are being monitored and controled. The risk management processes, procedures and requirements are structured in accordance with the principle of "three lines of defence". The control functions are not only independent from the operational business units, which they supervise and control but they are also organisationally independent from each other.

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.

Information systems in general are exposed to multiple problems, such as computer virus 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 a 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 adequate security program and 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 the 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's 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 Ordinance 4 of BNB 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 demotivating risk-taking behaviour, exceeding the levels acceptable for the Bank.

The main objective of the policy is the recruitment and retention of highly qualified personnel, its motivation for high performance combined with moderate risk levels and in line with the long-term interests of the Bank and its shareholders. It is based on the principles of transparency, prevention of conflict of interest, 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 these two types of remuneration, ensuring a sufficiently high share of the fixed component for the different personnel categories, and higher flexibility of the variable part, including possibility for non-payment. Remuneration is based not only on the financial results, but on the ethical norms and corporate values underlying the Bank's Code of Ethics, as well as on the reliability and efficiency of risk management.

**8. Disclosure of information**

Transparency and timely disclosure of information is a key corporate governance principle. The Bank maintains a system for the 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, 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 about the activities and history of the Bank;
- information about the shareholder structure;
- information about the governance 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 operations.

**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 national 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 Corporate Governance Code (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, any requirements regarding shareholders' rights protection, as well as publishing and disclosure of information concerning the shareholders are not applicable.

The main conrporate governance principles are established in the following internal documents of the Bank:

- articles of association;
- corporate governance policy;
- organizational structure;
- Code of Ethics of the administrators and employees;
- remuneration policy.

The corporate governance policy of TBI Bank EAD 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 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, local and foreign stakeholders, 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, provisioning 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 systems, including the related business processes relevant to financial reporting and communication – a description of the information systems 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.

(signatures on the next page)

**Valentin Galabov**
(executive director and
management board member)

**Alexander Dimitrov**
(executive director and
management board member)

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Ernst & Young Audit OOD
Polygraphia Office Center
47A Tsarigradsko Shose Blvd., floor 4
1124 Sofia, Bulgaria

Tel: +359 2 81 77 100
Fax: +359 2 81 77 111
ey.com

AFA
AUDIT
FINANCE
ACCOUNTING
TAX
LAW

Statutory Audit Firm # 108
Ernst & Young Audit OOD
Polygraphia Office Center
47A, Tsarigradsko Shose Blvd., floor 4
1124 Sofia, Bulgaria

Statutory Audit Firm # 015
AFA OOD
38, Oborishte str.
1504 Sofia, Bulgaria
Statutory Audit Firm # 015

# Independent auditors' report

## To the shareholders of TBI Bank EAD

## Report on the Audit of the Separate Financial Statements

### Opinion

We have audited the accompanying separate financial statements of TBI Bank EAD (the Bank), which comprise the separate statement of financial position as at 31 December 2020, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and its 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 Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) *(IESBA Code)* together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate 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.

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## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate 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* separate *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 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 separate 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**<br>The Bank's disclosures about impairment of loans and advances to customers are included in Note 14 "Loans to clients", Note 15 "Impairment provisions" and Note 3. "Significant accounting judgements, estimates and assumptions" to the separate financial statements. | |
| Loans to clients represent a significant part (61%) from the total assets of the Bank as at 31 December 2020 with aggregate gross value of BGN 715,265 thousand and accumulated loss allowance of BGN 91,953 thousand. The Bank applies an impairment model based on expected credit loss (ECL) estimation as per the requirements of IFRS 9 "Financial instruments".<br>The application of such impairment model has led to increased complexity and degree of management judgment in the ECL estimations as disclosed in Note 3 "Significant accounting judgements, estimates and assumptions". 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 | In this area, our audit procedures included, amongst others:<br>• Obtaining understanding and performed walk throughs of the Bank's established processes and controls over the monitoring and assessment for impairment of loans to corporate and retail customers in relation to the requirements of IFRS 9.<br>• Evaluating whether the Bank's impairment policy and estimation approaches were applied consistently in line with the requirements of IFRS 9.<br>• 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.<br>• Gaining understanding and walk-through of the identified controls of the Bank in relation to the monitoring |

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| 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.<br><br>In 2020 the social and economic consequences (including moratoria measures) from the crisis stemming from the COVID-19 pandemic increased the estimation uncertainty of the ECL measurement. The Bank has addressed this by reassessing the assumptions for probability of default (PD) and enhancing its credit risk monitoring procedures to distinguish the cases/indications that are related to long-term financial difficulties of the borrowers from those that are derived from the pandemic and represent temporary liquidity difficulties.<br><br>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. | and impairment of loans of corporate and retail clients under the requirements of IFRS 9 including the ones implemented due to the specific circumstances imposed by COVID-19.<br>• 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 Bank's system for loan monitoring used for IFRS 9 purposes.<br>• 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 and reflecting the impact from the development of COVID 19 pandemic.<br>• 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 Bank under IFRS 9 requirements as of 31 December 2020.<br>• 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 separate financial statements, we specifically assessed the Bank's assumptions on the expected future cash flows, including the realizable value of collateral based on our own understanding and available market information, including the impact from the development of COVID 19 pandemic. |

| | |
|---|---|
| | • 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.<br>• 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, including for consideration of uncertainties stemming from COVID-19 pandemic where applicable. 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.<br>• 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.<br>• We assessed the relevance and adequacy of the separate financial statement disclosures for the impairment of corporate and retail loans to customers under the requirements of IFRS 9. |

## Information Other than the Separate 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 management report, including the corporate governance statement and the non-financial declaration prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditor's report thereon.

Our opinion on the separate 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 separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the [separate] 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 Separate Financial Statements

Management is responsible for the preparation and presentation of the separate 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

### Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Bank'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 Bank'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 separate 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 Bank to cease to continue as a going concern.
— Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation.

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate 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 Separate Financial Statements and Auditor's Report Thereon* section, in relation to the management report, including the corporate governance statement and the 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.

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*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 management report referring to the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.
b) The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
c) The corporate governance statement referring to the financial year for which the separate 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 non-financial declaration referring to the financial year for which the separate 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 Ordinance №58/2018 of Financial Supervision Commission*

*Statement in accordance with article 11 of Ordinance №58/2018 of FSC on the requirements for protection of the financial instruments and cash funds of clients, for management of goods and for providing or receipt of remuneration, commissions, other cash and non-cash benefits*

On the basis of the performed audit procedures and the obtained understanding for the activity of the Bank and during the performance of our audit of the separate financial statements of the Bank, the created and applied organization in relation with the fiduciary assets is in accordance with the requirements of article 3-10 of Ordinance №58 of FSC and article 92-95 of Markets in Financial Instruments Act, on the activity of the Bank in its role as investment intermediary.

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***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 separate financial statements of TBI Bank EAD (the Bank) for the year ended 31 December 2020 by the general meeting of shareholders held on 8 October 2020 for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended 31 December 2020 represents fifth total uninterrupted statutory audit engagement for that entity carried out by Ernst & Young Audit OOD and fourth 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 Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the 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 2021

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

Separate annual financial statements (in BGN'000)

**Separate statement of comprehensive income**
for the year ended 31 December

| | Notes | 2020 | 2019 |
|---|---|---|---|
| Interest income calculated using the EIR method | 4 | 164,702 | 154,701 |
| Interest expense calculated using the EIR method | 4 | (9,580) | (7,214) |
| **Net interest income** | | **155,122** | **147,487** |
| Fee and commission income | 5 | 18,706 | 27,410 |
| Fee and commission expense | 5 | (5,025) | (5,652) |
| **Net fee and commission income** | | **13,681** | **21,758** |
| Net trading losses | 6 | (278) | (1,403) |
| Other gains/(losses), net | 7 | (4,662) | (4,718) |
| **Net operating income before impairment** | | **163,863** | **163,124** |
| Credit loss expense on financial assets | 15 | (40,880) | (26,174) |
| Impairment losses on other assets | 17 | (342) | (598) |
| **Net operating income** | | **122,641** | **136,352** |
| Personnel expenses | 8 | (37,252) | (36,580) |
| Depreciation / amortisation expenses | 18,19 | (4,806) | (3,963) |
| Other operating expenses | 9 | (61,524) | (53,509) |
| **Total operating expenses** | | **(103,582)** | **(94,052)** |
| **Profit before tax** | | **19,059** | **42,300** |
| Income tax expense | 10 | (2,798) | (4,500) |
| **Profit for the year** | | **16,261** | **37,800** |

(continued on the following page)

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

Financial statements on which we have issued an Auditors' Report dated: 29 April 2021.

| Audit firm „Ernst & Young Audit" OOD | Audit firm „AFA" OOD |
|---|---|
| | |

Separate annual financial statements (in BGN'000) TBIBank

## Separate statement of comprehensive income (continued)
for the year ended 31 December

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Profit for the year** | | **16,261** | **37,800** |
| **Other comprehensive income (OCI)** | | | |
| To be reclassified to the profit or loss | | | |
| Exchange differences on translation of foreign operations | | 272 | 264 |
| Net gain on financial assets at fair value through OCI | | 3,048 | 830 |
| Income tax relating to the above | | (248) | (74) |
| Not to be reclassified to the profit or loss | | | |
| Net loss on financial assets at fair value through OCI | | (1,784) | (6,858) |
| Income tax relating to the above | | 592 | 268 |
| **Other comprehensive income for the year, net of tax** | 28 | **1,880** | **(5,570)** |
| **Total comprehensive income for the year, net of tax** | | **18,141** | **32,230** |

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

**Alexander Dimitrov**
(executive director and
member of the management board)

**Yordan Stoyanov**
(preparer)

The financial statements were authorised for issue with a resolution of the management board dated 27 April 2021.

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

Financial statements on which we have issued an Auditors' Report dated: 29 Apr 2021.

| Audit firm „Ernst & Young Audit" OOD | Audit firm „AFA" OOD |
|---|---|
| | |

Separate annual financial statements (in BGN'000) TBIBank

## Separate statement of financial position

As of 31 December

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | 11 | 147,341 | 97,657 |
| Due from banks | 12 | 18,684 | 11,158 |
| Derivative financial instruments | 2b | 2,145 | 745 |
| Financial assets at fair value through PL | 13 | 4,940 | – |
| Financial assets at fair value through OCI | 13 | 153,170 | 111,625 |
| Loans to customers | 14,15,16 | 623,312 | 586,366 |
| Other assets | 21 | 27,280 | 18,375 |
| Current tax assets | 10 | 2,194 | 223 |
| Assets acquired from foreclosure on collateral | 17 | 6,368 | 6,929 |
| Investment in subsidiaries | 20 | 16,401 | 16,401 |
| Intangible assets | 18 | 10,232 | 9,444 |
| Property and equipment | 19 | 15,829 | 14,937 |
| Investment property | 19 | 1,632 | 1,707 |
| Deferred tax assets | 10 | 456 | 468 |
| **Total assets** | | **1,029,984** | **876,035** |
| **Liabilities** | | | |
| Due to banks | 22 | 31,339 | 25,507 |
| Derivative financial instruments | 2b | 4,432 | 1,321 |
| Due to customers | 23 | 740,469 | 615,536 |
| Other liabilities | 24 | 28,257 | 27,584 |
| Other borrowings | 25 | 5,008 | 3,749 |
| **Total liabilities** | | **809,505** | **673,697** |
| **Equity** | | | |
| Issued capital | 28 | 81,600 | 81,600 |
| Statutory reserves | 28 | 8,350 | 8,350 |
| Revaluation reserve | 28 | (4,941) | (6,549) |
| Foreign currency translation reserve | 28 | 634 | 362 |
| Retained earnings | | 134,836 | 118,575 |
| **Total equity** | | **220,479** | **202,338** |
| **Total equity and liabilities** | | **1,029,984** | **876,035** |

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member of the management board)

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Financial statements on which we have issued an Auditors' Report dated: 29 Apr 2021.

| Audit firm „Ernst & Young Audit" OOD | Audit firm „AFA" OOD |
|---|---|
| | |

Separate annual financial statements (in BGN'000)

## Separate statement of changes in equity
for the year ended 31 December 2019

| | Share capital (Note 28) | Statutory reserves (Note 28) | Revaluation reserve (Note 28) | Foreign currency translation reserve (Note 28) | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| At 1 January 2019 | 81,600 | 8,350 | (715) | 98 | 96,465 | 185,798 |
| Effect of first-time adoption of IFRS 16 | – | – | – | – | (43) | (43) |
| **At 1 January 2019, restated** | **81,600** | **8,350** | **(715)** | **98** | **96,422** | **185,755** |
| Profit for the year | – | – | – | – | 37,800 | 37,800 |
| Other comprehensive income, net of tax | – | – | (5,834) | 264 | – | (5,570) |
| Total comprehensive income for the year | – | – | (5,834) | 264 | 37,800 | 32,230 |
| Dividends paid | – | – | – | – | (15,647) | (15,647) |
| **At 31 December 2019** | **81,600** | **8,350** | **(6,549)** | **362** | **118,575** | **202,338** |

(continued on the following page)

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

Financial statements on which we have issued an Auditors' Report dated: 29 April 2021.

| Audit firm „Ernst & Young Audit" OOD | Audit firm „AFA" OOD |
|---|---|
| | |

Separate annual financial statements (in BGN'000)

## Separate statement of changes in equity (continued)
for the year ended 31 December 2020

| | Share capital (Note 28) | Statutory reserves (Note 28) | Revaluation reserve (Note 28) | Foreign currency translation reserve (Note 28) | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **At 1 January 2020** | **81,600** | **8,350** | **(6,549)** | **362** | **118,575** | **202,338** |
| Profit for the year | – | – | – | – | 16,261 | 16,261 |
| Other comprehensive income, net of tax | – | – | 1,608 | 272 | – | 1,880 |
| Total comprehensive income for the year | – | – | 1,608 | 272 | 16,261 | 18,141 |
| **At 31 December 2020** | **81,600** | **8,350** | **(4,941)** | **634** | **134,836** | **220,479** |

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

Financial statements on which we have issued an Auditors' Report dated: 29 April 2021.

| Audit firm „Ernst & Young Audit" OOD | Audit firm „AFA" OOD |
|---|---|
| | |

Notes to the financial statements (tables in BGN'000) TBIBank

## Separate statement of cash flows
for the year ended 31 December

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | 16,261 | 37,800 |
| *Adjustments for non-cash transactions:* | | | |
| Credit loss expense on financial assets | 15 | 40,880 | 26,174 |
| Impairment of assets acquired from foreclosure on collateral | 17 | 342 | 598 |
| Depreciation and amortization, excl. right-of-use assets | 18,19 | 2,636 | 2,026 |
| Depreciation of right-of-use assets | 19 | 2,170 | 1,937 |
| Net loss on derecognition of other assets | 7 | 263 | 1,263 |
| Provisions | 7 | 67 | 893 |
| Accruals on short-term employee benefits | 25 | 3,612 | 3,959 |
| Unrealized losses from foreign exchange revaluation | | 312 | 466 |
| Income tax expense | 10 | 2,798 | 4,500 |
| | | 53,080 | 41,816 |
| *Net decrease/(increase) in operating assets:* | | | |
| Statutory reserves with central banks | 11 | (7,693) | (6,464) |
| Due from banks (with maturity over 3 months) | 12 | (2,934) | 118 |
| Loans to customers | 14 | (77,247) | (118,795) |
| Financial assets at fair value through PL | 13 | (4,940) | – |
| Financial assets at fair value through OCI | 13 | (40,516) | (51,168) |
| Assets acquired from foreclosure on collateral | 17 | 219 | 1,005 |
| Derivative financial instruments | 26 | 1,711 | 746 |
| Other assets | 21 | (10,904) | (8,149) |
| | | (142,304) | (182,707) |
| *Net increase/(decrease) in operating liabilities:* | | | |
| Due to banks | 22 | 5,832 | 20,474 |
| Due to customers | 23 | 124,933 | 82,707 |
| Other liabilities | 25 | (1,390) | (305) |
| | | 129,796 | 102,876 |
| *Other adjustments:* | | | |
| Income tax paid | 10 | (4,414) | (2,598) |
| **Net cash flows from / (used in) operating activities** | | **51,998** | **(2,813)** |

(continued on the following page)

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

Financial statements on which we have issued an Auditors' Report dated: 29 April 2021.

| Audit firm „Ernst & Young Audit" OOD | Audit firm „AFA" OOD |
|---|---|

Notes to the financial statements (tables in BGN'000) TBIBank

**Separate statement of cash flows (continued)**
for the year ended 31 December

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Net payments related to the acquisition of subsidiaries | 20 | – | (5,253) |
| Purchase of intangible assets | 18 | (1,926) | (4,702) |
| Purchase of property and equipment | 19 | (1,042) | (3,111) |
| **Net cash flows used in investing activities** | | **(2,968)** | **(13,066)** |
| **Cash flows from financing activities** | | | |
| Dividends paid | | – | (15,647) |
| Payments made on lease contracts | 24, 29 | (2,437) | (1,957) |
| Payments made on other borrowings | 24, 29 | (10) | (102) |
| **Net cash flows used in financing activities** | | **(2,447)** | **(17,706)** |
| **Net change in cash and cash equivalents** | | 46,583 | **(33,584)** |
| Cash and cash equivalents on 1 January | 29 | 42,888 | 76,472 |
| **Cash and cash equivalents on 31 December** | 29 | **89,471** | **42,888** |
| **Additional information on cash flows from:** | | | |
| Interest paid | | (9,547) | (5,949) |
| Interest received | | 163,702 | 149,639 |

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

Financial statements on which we have issued an Auditors' Report dated: 29 April 2021.

| Audit firm „Ernst & Young Audit" OOD | Audit firm „AFA" OOD |
|---|---|
| | |

## Notes to the annual financial statements

## 1. General information and accounting policies

### 1.1. Corporate information

TBI Bank EAD (the Bank) is a credit institution registered at Sofia City Court, Bulgaria as a joint-stock company on 28 August 2003 with UIC 131134023. The Bank, together with its subsidiaries (the Group) offers a wide range of banking and non-banking financial services to local and foreign customers.

As at 31 December 2020, the Bank holds the controlling interest in the following subsidiaries:

- TBI Money IFN S.A. (till 2020 called TBI Credit IFN S.A.), Romania;
- TBI Leasing INF S.A., Romania;
- 4Finance EOOD, Bulgaria.

The ultimate parent is Tirona Limited, Cyprus wich is the majority shareholder of the 4Finance group of which the Bank is a part.

The Bank is managed by a management board under the supervision of a supervisory board and is represented by any two executive directors jointly. The persons charged with governance are the audit committee (Ariel Hason, Inita Hane and Edgars Dupats) and supervisory board (Ariel Hason, Kieran Donnelly and Gauthier Van Weddingen) members.

The Bank's headquarters and registered office, starting from September 2012, are Bulgaria, Sofia 1421, Dimitar Hadzhikotzev str. 52-54.

### 1.2. 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. The 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 par. 8 of its Additional provisions.

The financial statements have been prepared on the 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 (derivative financial instruments).

In preparing the financial statements, the Bank's management has assessed its ability to continue as a going concern in the foreseeable future and has judged that there are no material uncertaincies which would cast doubt on the Bank's ability to continue its operations. Consequently, the financial statements have been prepared on going concern basis.

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

### 1.3. Comparability of data

The accounting policies applied by the Bank are consistent with those applied during the preceding reporting period.

### 1.4. Changes in accounting policies and disclosures applicable to reporting periods ending 31 December 2020

*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 Bank.

*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 adoption of the amendments did not have an impact on the financial position or performance of the Bank.

*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. These amendments have not yet been endorsed by the EU. The adoption of the amendments did not have an impact on the financial position or performance of the Bank.

*IFRS 16 Leases*

Amendments with regards to the treatment of COVID-19 related rent concessions (adopted by the EU on 9 October 2020, effective from 1 June 2020 at the latest, for financial years beginning on or after 1 January 2020). The adoption of the amendments did not have an impact on the financial position or performance of the Bank.

*The Conceptual Framework for Financial Reporting*

The Conceptual Framework for Financial Reporting 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 Conceptual Framework for Financial Reporting has not yet been endorsed by the EU. The adoption of the amendments did not have an impact on the financial position or performance of the Bank.

*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 concluded 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 published amendments 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*, 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 adoption of the amendments did not have an impact on the financial position or performance of the Bank.

### 1.5. 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 Bank's financial statements are listed below. This listing includes standards and interpretations issued, which the Bank reasonably expects to have an impact on disclosures, financial position or performance when applied for the first time. The Bank intends to adopt those standards when they become effective.

*IFRS 17 Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The standard has not yet been endorsed by the EU. It is not expected that the standard would impact the financial position or performance of the Bank.

*IFRS 17 Insurance Contracts (Amendments), IFRS 4 Insurance Contracts (Amendments)*

The amendments to IFRS 17 are effective, retrospectively, for annual periods beginning on or after January 1, 2023, with earlier application permitted. The amendments aim at helping companies implement the Standard. In particular, the amendments are designed to reduce costs by simplifying some requirements in the Standard, make financial performance easier to explain and ease transition by deferring the effective date of the Standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time. The amendments to IFRS 4 change the fixed expiry date for the temporary exemption in IFRS 4 *Insurance Contracts* from applying IFRS 9 *Financial Instruments*, so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023. It is not expected that the amendments would impact the financial position or performance of the Bank.

*Amendments to IAS 1: Classification of Liabilities as Current or Non-current*

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments have not yet been endorsed by the EU. The Bank will analyze and assess the impact of the new amendments on its financial position or performance.

*Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)*

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate is replaced with an alternative nearly risk-free interest rate. In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 *Financial Instruments: Disclosures* to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. The Bank will analyze and assess the impact of the new amendments on its financial position or performance.

*Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use*

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments have not yet been endorsed by the EU. The Bank will analyze and assess the impact of the new amendments on its financial position or performance.

*IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities*

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The amendment has not yet been endorsed by the EU. The Bank will analyze and assess the impact of the new amendments on its financial position or performance.

*IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)*

The amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 a) describe how entities can identify the information about material accounting policies and give examples when accounting policy information is likely to be material, b) clarify that the information on accounting policies can be material by nature, even when the corresponding amounts are immaterial, c) clarify the that information on accounting policies is material if it is required by the users of the financial statements in order to understand other material information in the financial statements, and d) clarify that if the entity discloses information on material accounting policies, this should not lead to concealing of information on material accounting policies. The amendments have not yet been endorsed by the EU. The Bank will analyze and assess the impact of the new amendments on its financial position or performance.

*IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)*

The amendments become effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted. The amendments apply mostly to accounting estimates and relate to a) the definition of "changes in accounting estimates" is replaced by a "definition of accounting estimates". According to the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty, b) the entity uses accounting estimates when the accounting policies require ceratin positions in the financial statements to be measured in a way including uncertainty about their value, c) clarification that a change in an accounting estimate as a result of new information or new developments, does not represent correction of accounting error, d) a change in an accounting estimate can have effect on the profit or loss for the current period or on the profit or loss for the current and future periods. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments have not yet been endorsed by the EU. The Bank will analyze and assess the impact of the new amendments on its financial position or performance.

*IFRS 16 Leases (Amendments)*

The amendments a) allow the COVID-19 rent discounts practical expedient to be applied to rent discounts, for which each reduction in lease payments applies only to payments due on or before 30 June 2022 (instead of only to payments due on or before 30 June 2021), b) requires retrospective application of the amendment, with all effects recognized cumulatively as opening balance adjustment of retained earnings (or another equity component, if more appropriate) in the beginning of the annual reporting period during which the entity adopts the amendments, c) clarifies that the entity is not required to disclose the information, required by IAS 8, par. 28(e) for the reporting period of initial adoption. The amendments have not yet been endorsed by the EU. The Bank will analyze and assess the impact of the new amendments on its financial position or performance.

The amendments in the following standards have been endorsed by the EC and are effective from 1 January 2021: IFRS 9 *Financial instruments*, IAS 39 *Financial instruments – recognition and measurement*, IFRS 7 *Financial instruments – disclosures*, IFRS 4 *Insurance contracts* and IFRS 16 *Leases*, related to Phase 2 of the Interest-rate benchmark reform.

## 1.6. Foreign currency transactions

*Functional and presentation currency*

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

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.

*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 the initial transaction (purchase).

As at 31 December 2020, 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 1.59386 = USD 1 and BGN 0.401748 = RON 1 (31 December 2019: BGN 1.95583 = EUR 1, BGN 1.74099 = USD 1 and BGN 0.408913 = RON 1).

The Bank's foreign operation assets and liabilities, through its branch in Romania, were translated into Bulgarian leva at the closing exchange rate quoted by BNB, valid for the new Romanian leu as at 31 December 2020. The foreign operation income and expenses were translated at the average exchange rate for the reporting period, which amounted to BGN 0.40428 for 2020 (2019: BGN 0.41218). The effects of the translation of the functional currency of the branch into the functional currency of the Bank are recognised in the other comprehensive income.

## 1.7. Interest income and interest expenses

Interest income and interest expenses are recognised in the statement of comprehensive income for all interest-bearing instruments not measured at fair value through profit or loss, based on the accruals principal using the effective interest rate (EIR) 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 gross carrying amount of the financial asset or financial liability.

In calculating the effective interest rate the Bank 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 unutilized 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 rate method on the net book value of the instrument, i.e. after deduction of the adjustment for credit loss. Interest income and respectively, interest expense, on securities and other discount instruments includes not only the contractual interest but also amortisation of premiums or discounts on the instruments.

### 1.8. Fee and commission income and expenses

Fee and commission income comprises mainly agent's commissions, and fees for bank transfers in Bulgarian leva and foreign currency, for cash transactions, and for guarantees and letters of credit, and are recognised under the accrual principle or on the transfer date, as appropriate.

The Bank has identified the following four performance obligations under IFRS 15:

- Transaction-related services – revenue is recognised at a certain point in time since the customer simultaneously receives and consumes the transaction benefits due to the short-term period of performance of the service. The fees for these services are determined according to the Bank'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 Bank uses the practical expedience in IFRS 15, par. B16, to recognise revenue upon performing the transaction at 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 at a certain point in time when the customer simultaneously receives and consumes the benefits. The fees for these services are fixed amounts calculated according to the value of the guarantee or letter of credit. When benefits are transferred to the customer evenly over the duration of the contract, the Bank applies a straight-line method to measure the progress of the contract leading to straight-line amortisation of the fees for the agreed period.
- Maintenance of deposits – revenue is recognised at a certain point in time since the customer simultaneously receives and consumes the benefits. The fees for these services are determined according to the Bank's Tariff and represent a fixed monthly amount that reflects the value of the benefit transferred to the customer. Considering these circumstances, the Bank uses the practical expedience in IFRS 15, par. B16, to recognise revenue upon performing the transaction at an amount equal to that is has the right to withhold in accordance with the Tariff.
- Activities as an agent, for which the Bank receives agent's commissions – revenue is recognised at a certain point in time upon provision of the service since the Bank operates as an agent. The Bank recognises revenue equal to the amount of the agent's commission due for the performance of the mediation service. The commission fee is the net amount that is withheld by the Bank after paying the portion due to a third party for which the Bank mediates.

### 1.9. Financial assets

#### 1.9.1. Initial recognition and measurement

Financial assets are classified, at initial recognition, as:

- subsequently measured at amortised cost;
- subsequently measured at fair value through other comprehensive income (FVOCI); or
- subsequently measured at fair value through profit or loss (FVPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Bank'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 Bank'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 Bank commits to purchase or sell the asset.

The Bank 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 and for which the Bank 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 1.9. Fee and commission income and expenses.

### 1.9.2. Subsequent measurement

For the purpose 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 (FVOCI) with 'recycling' of cumulative gains and losses (debt instruments);
- financial assets designated at fair value through other comprehensive income (FVOCI) with no 'recycling' of cumulative gains and losses upon derecognition (equity instruments); and
- financial assets at fair value through profit or loss (FVPL).

*(a) Financial assets at amortised cost (debt instruments)*

This is the category most relevant to the Bank. The Bank 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 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 Bank's financial assets at amortised cost include amounts due from banks, loans to customers and investment in finance leases, and loans to related parties.

*(b) Financial assets at fair value through other comprehensive income (FVOCI) with "recycling" (debt instruments)*

The Bank 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 gains and losses, 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 Bank's debt instruments at fair value through other comprehensive income include investments in debt instruments listed/traded on regulated markets.

*(c) Financial assets at fair value through other comprehensive income (FVOCI) without "recycling" (equity instruments)*

Upon initial recognition, the Bank 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 Bank benefits 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.

*(d) Financial assets at fair value through profit or loss (FVPL)*

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 through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivative financial instruments 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 other comprehensive income, 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 also derivative instruments and listed equity investments which the Bank has not irrevocably elected to classify at fair value through OCI. Dividends on such 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).

### 1.9.3. Derecognition

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

- the rights to receive cash flows from the asset have expired; or
- the Bank 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 Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank 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 Bank continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Bank 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 Bank 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 Bank could be required to repay.

### 1.10. Impairment of financial assets

The Bank 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 and all the cash flows that the Bank expects to receive, discounted at 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 twelve months. 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.

For amounts due from banks and debt instruments at fair value through other comprehensive income, the Bank applies impairment based on the counterparty's credit rating.

At every reporting date, the Bank 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 Bank reassesses the internal credit rating of the debt instrument. In addition, the Bank considers whether there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Bank's debt instruments at fair value through other comprehensive income consit solely of quoted bonds. It is the Bank's 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 Bank uses ratings both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

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

The Bank 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 to corporate clients are removed from the Bank'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 to individuals are removed from the Bank's balance sheet at a loan level automatically after they become more than 1,080 days past due for the exposures extended in Bulgaria and 720 days for those extended in Romania.

Proceeds from sale of loans and collected written-off loans are reported as decrease in impairment costs.

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 are applied to the modified financial asset.

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 Bank 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 undue costs or effort. 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 have 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.

## 1.11. Financial liabilities

### 1.11.1. 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 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.

The financial liabilities of the Bank consist of loans, borrowings, derivative financial instruments and trade and other payables.

### 1.11.2. Subsequent measurement

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

*(a) Financial liabilities at fair value through profit or loss (FVPL)*

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 includes derivative financial instruments entered into by the Bank that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

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 Bank has not designated any financial liabilities as at fair value through profit or loss.

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

This is the category most relevant to the Bank. After initial recognition, interest-bearing loans and borrowings are subsequently measured by the Bank at amortised cost using the effective interest rate 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 effective interest rate. 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.

### 1.11.3. 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.

### 1.12. Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and are carried at their net amount in the Bank's statement of financial position, 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 assets and the settlement of the liabilities can be done simultaneously.

### 1.13. Investments in subsidiaries

Investments in subsidiaries include equity interests in entities over which the Bank exercises control. In accordance with the requirements of IFRS 10 *Consolidated Financial Statements* the Bank has control when all of following criteria are met cumulatively:

- the Bank has power over the investee;
- the Bank is exposed to or has rights to variable returns from its involvement with the investee;
- the Bank has the ability to use its power over the investee to affect the amount of its returns.

Based on the above criteria in 2020, the Bank has assessed that it has control over all of the entities in which it holds, directly or indirectly, more than 50% of the voting rights.
In its separate financial statements the Bank has adopted the policy to present investments in subsidiaries and associates at cost.

### 1.14. 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.

Any 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 Bank 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. The residual amount of the asset and its useful life are reviewed and adjusted as appropriate at each balance sheet date.

The annual depreciation rates are as follows:

Notes to the financial statements (tables in BGN'000) TBIBank

| | |
|---|---|
| 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 the carrying amount 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 based on the lower of the useful life of the assets and the remaining term of the lease contract.

### 1.15. Investment property

Investment properties are real estate – buildings held primarily to earn income from rent and/or for capital appreciation and that are not for the operations of the Bank.

Recognition of investment properties as an asset takes place only when it is probable that the future economic benefits that are associated with the estate will flow to the entities in the Bank and when the cost can be determined reliably. Investment properties are measured initially at cost, including transaction costs.

For subsequent reporting, the Bank uses the cost model, net of any accumulated depreciation and impairment.

Current expenses associated with servicing the asset are not included in the carrying amount and are reported as an expense for the period.

Improvements made after the date of initial recognition are included in the value of the investment property as long as it meets the criteria for recognition of an asset. The annual depreciation rate is 4%.

Determination of fair value is made in accordance with IFRS 13 *Fair Value Measurement* and reflects market conditions at the date of the financial statements. Licensed independent valuers with the necessary professional qualifications and experience carry out the update of the fair value of investment properties.

The income from investment properties is recognised in the statement of comprehensive income (in current profit or loos) under the heading of Other operating income, net. This amount includes the income from leased investment properties, which is recorded in the period to which it refers, in accordance with the lease contract signed.

### 1.16. Intangible assets

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

The annual amortisation rates are as follows:

| | |
|---|---|
| Software | 10-25% |
| Other assets | 25% |

### 1.17. Assets acquired from foreclosure on collaterals

The Bank classifies assets repossessed against 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 income net of the carrying amount of the asset sold.

Repossessed assets 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, 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.

Notes to the financial statements (tables in BGN'000) TBIBank

### 1.18. 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

### 1.19. Income taxes

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 2020 is 10% (2019: 10%), and the tax rate applicable in Romania is 16% (2019: 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 other operating costs.

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

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 Bank, 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.

### 1.20. 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.

### 1.21. Leases

#### 1.21.1. The Bank as a lessee

*(a) Right-of-use assets*

The Bank 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 |

If ownership of the leased asset transfers to the Bank at the end of the lease term or the acquisition 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 1.27. Impairment of non-financial assets.

*(b) Lease liabilities*

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of the 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 expected to be exercised with reasonable certainty, and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank 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.

*(c) Short-term leases and leases of low-value assets*

The Bank 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 twelve 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.

#### 1.21.2. The Bank as a lessor

The Bank does not enter lease agreements as lessor but purchases lease receivables from other companies. These receivables are included in line Loans to customers in the statement of financial position. The Bank applies its financial assets impairment policy to the calculation of impairments related to lease receivables.

### 1.22. 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 Bank'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.

The expected credit losses relating to financial guarantees issued are recognised in the statement of comprehensive income in Credit loss expense on financial assets.

### 1.23. Employee benefits

According to the local legislation, the Bank is obliged to make defined contributions to the state social security fund on behalf of its employees. All such payments and accrued 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 Bank and are 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 Bank companies operate. Based on the calculations made, the total amount of retirement benefit provision of the Bank is presented in Note 25.

### 1.24. Dividends

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

### 1.25. Fiduciary assets in custody

The Bank provides services as an investment intermediary in accordance with the provisions of the Public Offering of Securities Act. Being an investment intermediary, the Bank is obliged to comply with certain requirements for safeguarding customers' interests in compliance with the Markets in Financial Instruments Act and Ordinance 58, issued by the Financial Supervision Commission.

The Bank 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 Bank's assets.

### 1.26. Impairment of non-financial assets

The carrying amounts of the Bank'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 performed and the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets which cannot be tested individually are grouped together into the smallest group of assets that generate 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 in the statement of comprehensive income in line Impairment losses on other assets. An impairment loss on non-financial assets 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.

## 2. Financial risk management

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

The Bank'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 Bank regularly reviews its risk management policies and systems to reflect in a timely manner changes in the markets, products and emerging best practices.

In September 2017 TBI Bank EAD elaborated a Methodology for Conducting an Internal Capital Adequacy Analysis and a Methodology for Conducting an Internal Liquidity Adequacy Analysis. A stress test of the exposure of the Bank to risk was performed as well. In November 2018 the Bank updated its rules for financial asset classification and impairment in accordance with the requirements of IFRS 9 *Financial Instruments* and the Emergency Preparedness and Business Continuity Plan of TBI Bank EAD.

The risk control policy of the Bank'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 Bank;
- risk assessment by a specialized unit of the Bank 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 Bank with respect to its long-term risk management policy and strategy.

The risk management process 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 (to limit any potential and probable losses), outsourcing, monitoring and other risk mitigation best practices, 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 Bank;
- develop and implement approaches to meet the requirements of Basel III and the respective internal rules.

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

### 2.1. Credit risk

#### 2.1.1. General information

The Bank is exposed to credit risk, which is the risk that a counterparty will be unable to pay any amounts due in full and/or 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 Bank's portfolio could result in losses other than the losses for which ECL allowances are identified by the Bank's management as at the financial statements date. Management manages carefully the Bank's exposure to credit risk.

The Bank 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.

The main exposures of the Bank are towards governments, banks and customers who have received loans or have issued securities purchased by the Bank. In measuring the credit risk on these exposures the Bank 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 Bank;
- servicing of past liabilities of the debtor to the Bank and/or to other institutions;
- type and amount of security for the balance sheet exposures and the contingent liabilities of the customer.

The Bank manages the credit risk on amounts provided to customers, banks and governments 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.

The market component of credit risk is assessed based on the economic characteristics/prospects of the relevant market and the competitive position of the prospective borrower.

### 2.1.2. Risk mitigation and risk limit control policies

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

The Bank has set credit approval levels in order to manage credit risk. Depending on the amount of the loan application, credits shall be referred to the appropriate level for approval. The Bank assesses financial, market and business risks, and structures adequately the transactions. Credit risk is measured using a detailed analysis of the borrower's or 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, contingent liabilities and irrevocable commitments, and day-to-day risk limits relating to trading positions, such as forward and swap 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 the borrowers and potential borrowers to cover their liabilities and, where appropriate, by changing credit limits.

### 2.1.3. Exposures classification

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 terms of the loan agreement. Risk exposures on loans extended to individuals are measured and classified completely based on the defaults on any amounts due.

In 2020, the Bank's risk exposures were classified in three groups by applying the criteria for the levels of credit risk in IFRS 9, namely Stage 1, Stage 2 and Stage 3.

**Stage 1** exposures are serviced regularly and the information on the borrower's financial performance provides no grounds to assume that the borrower will not be able to pay off the liability in full. These exposures meet all of the following criteria:

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

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**Stage 2** exposures meet all of the following criteria:

- exposures in arrears – from 31 to 90 days;
- exposures for which there is no proof of financial difficulties of the borrower;
- exposures defined as forborne in accordance with Commission Implementing Regulation (EU) 2015/1278 of 9 July 2015 amending Implementing Regulation (EU) 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:
    - the term extension has not led to classifying the exposure as non-performing;
    - the exposure was not considered to be a non-performing exposure at the date the forbearance measures were extended.

**Stage 3** comprises 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. The following criteria apply cumulatively for these exposures:

- exposures that meet the recognition criteria for Stage 3, corresponding to the existing initial IFRS 9 impairment mechanisms that are considered to result in loss for the Bank;
- all non-performing exposures (NPL) as per the definition of the Bank – non-performing for more than 90 days after their maturity date;
- a material liability of the debtor to the Bank has been past due for more than 90 days. A liability is considered material when either of the following conditions is met:
    - exposures to individuals – a minimum amount of BGN 5 or their equivalent in other currency;
    - corporate exposures – a minimum amount of 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 Bank without recourse to actions such as collateral foreclosure.

On-balance sheet exposures that have occurred as a result of the implementation of off-balance sheet engagements (guarantees) are classified as Stage 2 or Stage 3 exposures.

*The loans to customers are summarised as follows:*

| **At 31 December 2020** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Neither past due, nor impaired individually | 470,078 | 14,030 | 3,313 | 487,421 |
| Past due but not impaired individually | 63,414 | 37,788 | 111,127 | 212,329 |
| Impaired individually | 3,917 | 1,592 | 10,006 | 15,515 |
| Gross amount | 537,409 | 53,410 | 124,446 | 715,265 |
| Less: allowance for ECL | (15,165) | (9,760) | (67,028) | (91,953) |
| **Carrying amount** | **522,244** | **43,650** | **57,418** | **623,312** |

| **At 31 December 2019** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Neither past due, nor impaired individually | 413,109 | 6,839 | 2,737 | 422,685 |
| Past due but not impaired individually | 89,868 | 37,090 | 95,126 | 222,084 |
| Impaired individually | 3,677 | 324 | 9,241 | 13,242 |
| Gross amount | 506,654 | 44,253 | 107,104 | 658,011 |
| Less: allowance for ECL | (13,443) | (7,048) | (51,154) | (71,645) |
| **Carrying amount** | **493,211** | **37,205** | **55,950** | **586,366** |

The total allowance for ECL on credits and advances is BGN 91,953 thousand (2019: BGN 71,645 thousand). Allowances accrued by individually assessed financial assets amount to BGN 5,675 thousand (2019: BGN 4,384 thousand) and those accrued on the a collective basis amount to BGN 86,278 thousand (2019: BGN 67,261 thousand). Further details of the allowance for ECL on credits and advances is given in Note 15.

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In 2020, loans to customers extended by the Bank, before impairment, grew by 8.70% compared to the previous year. In order to effectively manage credit risk, the Bank 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 that are neither past due nor impaired individually are presented in the table below depending on the purpose of the customer:

| **At 31 December 2020** | **Corporate customers** | **Individuals** | **Total** |
|---|---|---|---|
| Stage 1 | 96,708 | 373,370 | 470,078 |
| Stage 2 | 12,156 | 1,874 | 14,030 |
| Stage 3 | 697 | 2,616 | 3,313 |
| Gross amount | 109,561 | 377,860 | 487,421 |
| Less: allowance for ECL | (919) | (12,310) | (13,229) |
| **Carrying amount** | **108,642** | **365,550** | **474,192** |
| *Including:* | | | |
| *Standard risk loans* | *109,238* | *374,743* | ***483,981*** |
| *Higher risk loans* | *323* | *3,117* | ***3,440*** |

Higher risk loans are loans which have been overdue for six months and as of the date of the financial statements are neither past due nor impaired.

| **At 31 December 2019** | **Corporate customers** | **Individuals** | **Total** |
|---|---|---|---|
| Stage 1 | 85,534 | 327,575 | 413,109 |
| Stage 2 | 5,408 | 1,431 | 6,839 |
| Stage 3 | 2,479 | 258 | 2,737 |
| Gross amount | 93,421 | 329,264 | 422,685 |
| Less: allowance for ECL | (603) | (8,957) | (9,560) |
| **Carrying amount** | **92,818** | **320,307** | **413,125** |
| *Including:* | | | |
| *Standard risk loans* | *91,049* | *328,725* | *419,774* |
| *Higher risk loans* | *2,372* | *539* | *2,911* |

The consumer loan portfolio, which represents more than 77.52% (2019: 77.90%) 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 enterprises, these are primarily small and medium-sized enterprises of acceptable quality and within the Bank's risk appetite. The loan portfolio comprises loans secured mainly by mortgages.

*Loans to customers that are past due, but are not impaired individually*

For the purpose of presenting, the quality of credit risk loans to customers that are past due but not impaired individually 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 as at the date of the financial statements. All other exposures are included in the group of standard quality of credit risk.

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| At 31 December 2020 | Corporate customers | Individuals | Total |
|---|---|---|---|
| **Stage 1** | **1,588** | **61,826** | **63,414** |
| Past due up to 30 days | 1,588 | 61,826 | 63,414 |
| **Stage 2** | **5,606** | **32,182** | **37,788** |
| Past due up to 30 days | 2,459 | 5,981 | 8,440 |
| Past due from 31 to 60 days | 1,161 | 16,836 | 17,997 |
| Past due from 61 to 90 days | 1,986 | 9,365 | 11,351 |
| **Stage 3** | **18,132** | **92,995** | **111,127** |
| Past due up to 90 days | 1,597 | 2,082 | 3,679 |
| Past due more than 90 days | 16,535 | 90,913 | 107,448 |
| **Gross amount** | **25,326** | **187,003** | **212,329** |
| Less: allowance for ECL | (3,240) | (69,809) | (73,049) |
| **Carrying amount** | **22,086** | **117,194** | **139,280** |

| At 31 December 2019 | Corporate customers | Individuals | Total |
|---|---|---|---|
| **Stage 1** | **9,451** | **80,417** | **89,868** |
| Past due up to 30 days | 9,451 | 80,417 | 89,868 |
| **Stage 2** | **10,025** | **27,065** | **37,090** |
| Past due up to 30 days | 1,258 | 3,197 | 4,455 |
| Past due from 31 to 60 days | 7,983 | 16,717 | 24,700 |
| Past due from 61 to 90 days | 784 | 7,151 | 7,935 |
| **Stage 3** | **19,949** | **75,177** | **95,126** |
| Past due up to 90 days | 658 | 990 | 1,648 |
| Past due more than 90 days | 19,291 | 74,187 | 93,478 |
| **Gross amount** | **39,425** | **182,659** | **222,084** |
| Less: allowance for ECL | (2,854) | (54,847) | (57,701) |
| **Carrying amount** | **36,571** | **127,812** | **164,383** |

According to internal rules and policies, the Bank assesses individually the corporate loans in its portfolio and calculates a provision for expected credit losses 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 2020 | Corporate customers | Individuals | Total |
|---|---|---|---|
| Stage 1 | 3,917 | – | 3,917 |
| Stage 2 | 1,592 | – | 1,592 |
| Stage 3 | 10,006 | – | 10,006 |
| Gross amount | 15,515 | – | 15,515 |
| Less: allowance for ECL | (5,675) | – | (5,675) |
| **Carrying amount** | **9,840** | – | **9,840** |

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| At 31 December 2019 | Corporate customers | Individuals | Total |
|---|---|---|---|
| Stage 1 | 3,677 | – | 3,677 |
| Stage 2 | 324 | – | 324 |
| Stage 3 | 9,241 | – | 9,241 |
| Gross amount | 13,242 | – | 13,242 |
| Less: allowance for ECL | (4,384) | – | (4,384) |
| **Carrying amount** | **8,858** | – | **8,858** |

For individually assessed positions loans are considered impaired (Stage 3) at the time when objective evidence for impairment loss is identified.

*Movement between stages*

The following tables illustrate the movement between the stages for 2020 of loans extended to corporate customers, showing gross amounts and ECL:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Gross amount of credit exposures at 01.01.2020 | 98,663 | 15,757 | 31,668 | 146,088 |
| Newly extended or purchased loans | 30,806 | 934 | 10 | 31,750 |
| Closed loans | (40,198) | (1,455) | (1,555) | (43,208) |
| Transfers to Stage 1 | (1,113) | 220 | 893 | – |
| Transfers to Stage 2 | 5,120 | (4,642) | (478) | – |
| Transfers to Stage 3 | 1,342 | 727 | (2,069) | – |
| Amendment of loans with unchanged stage | 9,103 | 8,035 | 2,865 | 20,003 |
| Collection of receivables under Stage 3 loans | – | – | (2,134) | (2,134) |
| Loans written off | – | – | – | – |
| Foreign currency differences | (1,510) | (222) | (365) | (2,097) |
| **Gross amount of credit exposures as at 31.12.2020** | **102,213** | **19,354** | **28,835** | **150,402** |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Impariment loss allowance at 01.01.2020 | 734 | 581 | 6,527 | 7,842 |
| Newly extended or purchased loans | 49 | 61 | – | 110 |
| Closed loans | (21) | (40) | (97) | (158) |
| Transfers to Stage 1 | 91 | (34) | (57) | – |
| Transfers to Stage 2 | (21) | 27 | (6) | – |
| Transfers to Stage 3 | (174) | 139 | 35 | – |
| Impairment of loans with unchanged stage | 531 | 387 | 1,380 | 2,298 |
| Collection of receivables under Stage 3 loans | – | – | (67) | (67) |
| Loans written off | – | – | – | – |
| Foreign currency differences | (259) | 129 | (61) | (191) |
| **Allowance for ECL as at 31.12.2020** | **930** | **1,250** | **7,654** | **9,834** |

The following tables illustrate the movement between the stages for 2019 of loans extended to corporate customers, showing gross amounts and ECL:

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| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Gross amount of credit exposures at 01.01.2019 | 79,297 | 11,355 | 28,994 | 119,646 |
| Newly extended or purchased loans | 72,600 | 4,514 | 3,972 | 81,086 |
| Closed loans | (31,914) | (1,979) | (3,738) | (37,631) |
| Transfers to Stage 1 | 1,255 | (1,198) | (58) | (1) |
| Transfers to Stage 2 | (9,245) | 9,386 | (141) | – |
| Transfers to Stage 3 | (2,394) | (3,319) | 5,713 | – |
| Impairment of loans with unchanged stage | (9,333) | (2,772) | 713 | (11,392) |
| Collection of receivables under Stage 3 loans | – | – | (3,429) | (3,429) |
| Loans written off | – | – | – | – |
| Foreign currency differences | (1,603) | (230) | (358) | (2,191) |
| **Gross amount of credit exposures as at 31.12.2019** | **98,663** | **15,757** | **31,668** | **146,088** |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Impariment loss allowance at 01.01.2019 | 794 | 425 | 4,475 | 5,695 |
| Newly extended or purchased loans | 630 | 353 | 908 | 1,891 |
| Closed loans | (433) | (119) | (465) | (1,016) |
| Transfers to Stage 1 | 55 | (24) | (31) | – |
| Transfers to Stage 2 | (50) | 63 | (13) | – |
| Transfers to Stage 3 | (61) | (196) | 257 | – |
| Impairment of loans with unchanged stage | 87 | 770 | 831 | 1,687 |
| Collection of receivables under Stage 3 loans | – | – | (257) | (257) |
| Loans written off | – | – | – | – |
| Foreign currency differences | (289) | (691) | 822 | (158) |
| **Allowance for ECL as at 31.12.2019** | **734** | **581** | **6,527** | **7,842** |

The following tables illustrate the movement between the stages for 2020 of loans extended to individuals, showing gross amounts and ECL:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Gross amount of credit exposures at 01.01.2020 | 407,992 | 28,495 | 75,435 | 511,922 |
| Newly extended or purchased loans | 336,666 | 23,576 | 31,708 | 391,950 |
| Closed loans | (203,905) | (8,884) | (27,331) | (240,120) |
| Transfers to Stage 1 | 4,412 | (3,769) | (643) | – |
| Transfers to Stage 2 | (12,885) | 12,966 | (81) | – |
| Transfers to Stage 3 | (22,935) | (12,731) | 35,666 | – |
| Amendment of loans with unchanged stage | (74,112) | (5,592) | 8,233 | (71,471) |
| Collection of receivables under Stage 3 loans | – | – | (2,819) | (2,819) |
| Loans written off | – | – | (24,548) | (24,548) |
| Foreign currency differences | (37) | (5) | (9) | (51) |
| **Gross amount of credit exposures as at 31.12.2020** | **435,196** | **34,056** | **95,611** | **564,863** |

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| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Impairment loss allowance at 01.01.2020 | 12,709 | 6,467 | 44,627 | 63,803 |
| Newly extended or purchased loans | 10,145 | 5,294 | 19,229 | 34,668 |
| Closed loans | (5,413) | (1,406) | (16,737) | (23,556) |
| Transfers to Stage 1 | 1,274 | (861) | (413) | – |
| Transfers to Stage 2 | (562) | 623 | (61) | – |
| Transfers to Stage 3 | (1,238) | (3,446) | 4,684 | – |
| Impairment of loans with unchanged stage | (2,669) | 1,879 | 34,981 | 34,191 |
| Collection of receivables under Stage 3 loans | – | – | (1,812) | (1,812) |
| Loans written off | – | – | (24,315) | (24,315) |
| Foreign currency differences | (12) | (40) | (808) | (860) |
| **Allowance for ECL at 31.12.2020** | **14,234** | **8,510** | **59,375** | **82,119** |

The following tables illustrate the movement between the stages for 2020 of loans extended to individuals, showing gross amounts and ECL:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Gross amount of credit exposures at 01.01.2019 | 346,280 | 31,049 | 61,498 | 438,827 |
| Newly extended or purchased loans | 357,068 | 20,393 | 25,229 | 402,690 |
| Closed loans | (182,748) | (8,310) | (3,027) | (194,086) |
| Transfers to Stage 1 | 7,178 | (5,630) | (1,547) | – |
| Transfers to Stage 2 | (13,043) | 13,176 | (133) | – |
| Transfers to Stage 3 | (18,543) | (11,877) | 5,277 | (25,143) |
| Impairment of loans with unchanged stage | (88,096) | (10,293) | 15,669 | (82,720) |
| Collection of receivables under Stage 3 loans | – | – | (2,369) | (2,369) |
| Loans written off | – | – | (25,144) | (25,144) |
| Foreign currency differences | (104) | (12) | (17) | (134) |
| **Gross amount of credit exposures as at 31.12.2019** | **407,992** | **28,495** | **75,435** | **511,922** |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Impairment loss allowance at 01.01.2019 | 13,381 | 7,447 | 38,292 | 59,121 |
| Newly extended or purchased loans | 11,085 | 4,780 | 16,139 | 32,003 |
| Closed loans | (5,852) | (1,281) | (1,849) | (8,982) |
| Transfers to Stage 1 | 2,452 | (1,393) | (1,059) | – |
| Transfers to Stage 2 | (737) | 823 | (86) | – |
| Transfers to Stage 3 | (1,114) | (3,200) | 4,314 | – |
| Impairment of loans with unchanged stage | (6,501) | (704) | 16,698 | 9,492 |
| Collection of receivables under Stage 3 loans | – | – | (1,620) | (1,620) |
| Loans written off | – | – | (25,144) | (25,144) |
| Foreign currency differences | (4) | (5) | (1,057) | (1,066) |
| **Allowance for ECL at 31.12.2019** | **12,709** | **6,467** | **44,627** | **63,803** |

### 2.1.4. Segmentation and models for calculation of expected credit losses (ECL)

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, in several steps. To begin with, in order to calculate the expected credit losses, the Bank's portfolio is divided into segments with similar product characteristics. A collective assessment model is applied to these groups, based on historical data of probability of default (PD), loss given default (LGD) and exposure at default (EAD). Individual risk exposures that do not fall within any of the above groups are assessed using individual models.

*Collective impairment model*

The Bank calculates expected credit losses (ECL) for groups of financial assets with similar characteristics by applying the formula ECL=PD * LGD * EAD. The components of this formula are calculated differently depending on the credit risk stage of the exposures (see Exposures classification above).

For **Stage 1**, an estimate of the expected loss over the next twelve months is made on the basis of:

- twelve-month indicators for the probability of default value:
  - ✓ late payments by conducting an analysis of the migration from one period to another according to days past due by products and groups, by number of days past due from one period to another;
  - ✓ calculation of late payments through a migration matrix.

- calculation of loss given default 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.

The **Stage 2** calculations overlap with the ones for Stage 1 above, except that the expected credit losses do not cover only the next twelve months but the full remaining lifetime of the instrument, based on a the lifetime probability of default.

The exposures in **Stage 3** are also evaluated based on the expected loss throughout the entire lifetime of the instrument, as follows:

- assumed probability of default of 100%;
- assumed maximum exposure at default;
- calculation of loss given default similar to Stage 1 and Stage 2.

In practice the components of the expected credit losses formula are determined following the general procedures below:

- PD – based on monthly migration matrices by number of exposures, in two phases:
  - ✓ calculation of a migration matrix for a 12-month period;
  - ✓ 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.
- LGD – based on the formula LGD = 1 – (% recovery * discount factor), where the discount factor is based on the average annual effective rate applicable to that product, and the % recovery is based on the expected cash flows from the product;
- EAD – a coefficient of the calculated exposure at default is applied historically to the exposure amount at the beginning of the relevant period.

*Individual impairment model*

In the individual assessment of expected credit losses, the Bank takes into account a number of factors such as current and historical performance of the borrower, the borrower's behaviour in connection with other financial instruments in the Bank, the loan amount, the timing of loan extension, and collateral analyses.

To calculate the expected credit losses the Bank uses the discounted cash flows model, including cash flows from collateral. The cash flows are forecasted based on three scenarios – baseline, positive and negative, with relative weight of 80%, 10% and 10%, respectively. The expected cash flows are then discounted using the original EIR of the instrument and the result is compared to the amount of the exposure.

*Lease portfolio*

With respect to the impairment of lease receivables IFRS 9 requires to consider only the cash flows used in the current measurment of the lease receivable, and to exclude future cash flows which have not yet been recognized in the statement of financial position.

For the purposes of calculating loss at default, the default criterion for lease contracts is the notice of cancellation of the lease contract sent to the customer 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 to the month of default using the original effective interest rate comprising a contractual interest rate and fees applicable to the specific product.

*Credit conversion factor for off-balance sheet positions*

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

### 2.1.5. 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 is about to experience difficulties in meeting its financial commitments.

The concessions provided by the Bank enable the debtor experiencing financial difficulties to comply with its financial commitments, which the debtor would not be able to comply with otherwise.

The indicators for financial difficulties include:

- a counterparty has overdue exposures to the Bank at the time of modification;
- a counterparty is not currently in default but will not be able to fulfill its obligations in the foreseeable future without any modification and will not be able to pay in full its obligation to the Bank;
- 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.

The Bank has adopted the following as 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 of the financial condition of the debtor which 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

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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 forborne exposures may be reclassified from non-performing exposures (Stage 3) to performing exposures (Stage 2) after an analysis of the financial condition of the 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 stage apply in addition to the criteria applied by reporting institutions for impaired and defaulted exposures in accordance with the applicable accounting framework and art. 178 of Regulation 575/2013, respectively.

All forborne exposures that meet the conditions described below, should always 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 two 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 Bank 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.

The following tables present summarized information about the forborne exposures of the Bank:

| **At 31 December 2020** | **Gross amount** | **Instruments with changed terms Stage 2** | **Instruments with changed terms Stage 3** | **Total loans to customers with forbearance measures** | **Ratio to total gross loan portfolio in the segment** |
|---|---|---|---|---|---|
| Loans to customers | | | | | |
| *Corporate customers* | 150,402 | 7,156 | 16,270 | **23,426** | 15.58% |
| *Individuals* | 564,863 | 50 | – | **50** | 0.01% |
| **Total amount** | **715,265** | **7,206** | **16,270** | **23,476** | **3.28%** |

| **At 31 December 2020** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|
| Allowance for ECL on forborne loans to customers | | | |
| *Corporate customers* | 198 | 3,338 | 3,536 |
| *Individuals* | 18 | – | 18 |
| **Total amount** | **216** | **3,338** | **3,554** |

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| At 31 December 2019 | Gross amount | Instruments with changed terms Stage 2 | Instruments with changed terms Stage 3 | Total loans to customers with forbearance measures | Ratio to total gross loan portfolio in the segment |
|---|---|---|---|---|---|
| Loans to customers | | | | | |
| *Corporate customers* | 146,088 | 3,046 | 17,798 | **20,844** | 14.27% |
| *Individuals* | 511,923 | 38 | – | **38** | 0.01% |
| **Total amount** | **658,011** | **3,084** | **17,798** | **20,882** | **3.17%** |

| At 31 December 2019 | Stage 2 | Stage 3 | Total |
|---|---|---|---|
| Allowance for ECL on forborne loans to customers | | | |
| *Corporate customers* | 40 | 3,123 | 3,163 |
| *Individuals* | 11 | – | 11 |
| **Total amount** | **51** | **3,123** | **3,174** |

### 2.1.6. 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 2020 and 31 December 2019 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 | 2020 | 2019 |
|---|---|---|
| Cash balances with central banks | 131,874 | 86,611 |
| Due from banks | 18,684 | 11,158 |
| Derivative financial instruments | 2,145 | 745 |
| Loans to corporate customers | 140,568 | 138,247 |
| Loans to individuals | 482,744 | 448,119 |
| Financial assets at fair value through PL | 4,940 | – |
| Financial assets at fair value through OCI | 153,170 | 111,625 |
| Other receivables | 23,996 | 15,474 |
| *Exposures related to contingent liabilities and irrevocable commitments:* | | |
| Guarantees | 907 | 713 |
| Undrawn loans commitments | 28,042 | 13,910 |
| **Total maximum exposure to credit risk** | **987,070** | **826,602** |

### 2.1.7. Collateral

A requirement of the Bank to borrowers is to provide liquid collateral before the approved credits are granted, for all loans other than consumer loans to individuals. The main types of collateral used are:

- cash in Bulgarian leva and foreign currency;
- real estate mortgages;
- pledges on business assets such as receivables, inventories, plant and equipment;
- pledges on financial instruments; and
- guarantees issued in favour of the Bank.

Given the specifics of the Bank'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 24 months) and with very low limits (average ticket size around BGN 2.2 thousand) and therefore, the Bank does not require collateralisation of its receivables.

Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on a regular basis depending on its type. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non-financial collateral and financial assets which do not have readily determinable market values are valued using models.

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

| At 31 December | 2020 Gross amount | 2020 Collateral | 2019 Gross amount | 2019 Collateral |
|---|---|---|---|---|
| Mortgage loans | 108,408 | 105,689 | 97,240 | 94,916 |
| Loans with cash collateral | 58 | 58 | 972 | 972 |
| Loans with other collateral | 6,505 | 6,257 | 15,191 | 14,868 |
| Unsecured loans | 600,294 | – | 544,608 | – |
| **Total** | **715,265** | **112,004** | **658,011** | **110,756** |

The next table shows the level of coverage of credit risk by collateral as a percentage of the carrying amount of loans, by types of collateral as of 31 December 2020 and 31 December 2019. The amount of collateral is considered up to the amount of exposures it relates to, thus eliminating the effect of collateral exceeding the exposure.

| | 2020 | 2019 |
|---|---|---|
| Loans collateralized by mortgages | 97% | 98% |
| Loans with cash collateral | 100% | 100% |
| Loans with other collateral | 96% | 98% |

### 2.1.8. Geographic concentration of credit risk

Geographic sectors for financial assets with credit risk exposure:

| | 2020 | 2019 |
|---|---|---|
| Romania | 432,745 | 395,974 |
| Bulgaria | 393,668 | 355,732 |
| Lithuania | 32,168 | – |
| Luxembourg | 15,956 | 14,203 |
| Croatia | 9,296 | 11,601 |
| Greece | 9,279 | 9,755 |
| Austria | 8,085 | – |
| Montenegro | 7,914 | – |
| Germany | 5,484 | – |
| Serbia | 4,798 | 7,566 |
| United Kingdom | 4,385 | – |
| Norway | 2,433 | 4,433 |
| Poland | 1,895 | 5,458 |
| Other countries | 30,015 | 7,257 |
| **Total financial assets** | **958,121** | **811,979** |

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Geographic sectors for contingent liabilities and irrevocable commitments:

| | 2020 | 2019 |
|---|---|---|
| Bulgaria | 9,373 | 9,640 |
| Romania | 19,517 | 4,947 |
| Other countries | 59 | 36 |
| **Total financial assets and contingent liabilities and irrevocable commitments** | **987,070** | **826,602** |

### 2.1.9. Contingent liabilities and irrevocable commitments

Guarantees and letters of credit which represent irrevocable commitments by the Bank to make the respective payments if a customer fails to discharge its liability to a third party give rise to the same type of risk as loans. The Bank has no guarantees claimed within the five previous years and therefore, the risk of claiming guarantees was not considered significant as at 31 December 2020.

Documentary and commercial letters of credit which represent written commitments of the Bank on behalf of a customer that has authorised a third party to issue orders to the Bank up to an agreed amount in accordance with specific conditions, are secured with cash deposits or other pledges in favour of the Bank and therefore, the Bank reports minimum risk levels. Commitments to grant loans represent the unutilised portion of the allowed loan amount, guarantees or letters of credit. The Bank controls the maturity of credit commitments since in most cases long-term commitments bear higher credit risk compared to short-term ones.

### 2.1.10. Analysis of financial assets at FVOCI, amounts due from banks and other receivables

The table below presents an analysis of financial assets at fair value through OCI and amounts due from banks at 31 December 2020 and 31 December 2019 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 2020 | | | 31 December 2019 | | |
|---|---|---|---|---|---|
| **Rating** | **Financial assets at fair value through OCI** | **Due from banks** | **Rating** | **Financial assets at fair value through OCI** | **Due from banks** |
| **Moody's** | | | **Moody's** | | |
| A | 1,464 | 6,050 | A | 9,755 | – |
| Baa | 70,738 | 1,660 | Baa | 63,975 | 3,187 |
| Ba | 5,854 | – | Ba | 19,167 | – |
| B | 27,126 | – | B | 10,539 | – |
| **Fitch** | | | **Fitch** | | |
| BBB | 2,930 | 63 | BBB | – | 120 |
| BB | 21,054 | – | BB | – | – |
| B | 8,064 | – | B | – | – |
| **BCRA** | | | **BCRA** | | |
| BBB | – | 10,911 | BBB | – | 7,850 |
| BB | – | – | BB | – | – |
| **S&P** | | | **S&P** | | |
| A | 9,265 | – | A | – | – |
| BB | 3,297 | – | BB | – | – |
| B+ | 853 | – | B+ | – | – |
| Без рейтинг | 2,525 | – | Без рейтинг | 8,189 | – |
| **Общо** | **153,170** | **18,684** | **Общо** | **111,625** | **11,158** |

Amounts due from banks and financial assets at fair value through other comprehensive income were classified in Stage 1 at 31 December 2020. Total credit loss allowances at 31 December 2020 are as follows:

- due from banks – BGN 2 thousand reported in decrease of total debt (2019: 2 thousand);
- financial assets at fair value through other comprehensive income – BGN 768 thousand (2019: 220 thousand) reported in other comprehensive income.

As of 31 December 2020, the rating of cash balances in accounts with central banks was BBB (2019: BBB).

Amounts due from banks and other unrated financial institutions are classified internally based on an analysis of qualitative and quantitative factors.

At 31 December 2020 and 31 December 2019, 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.

## 2.2. Market risk

The Bank 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.

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 overall risk (or global currency risk – impacts the complete operations of the Bank – income, expenses, cash flows dynamics, regardless of which market transactions are oriented to), volatility risk and convertibility risk.

The risk related to potential losses as a result of unfavourable changes in the market levels of the prices of equity instruments and indices based on such prices, is also classified by the Bank as market risk.

The Bank's market risk policy is developed by the risk management units of the Bank and is approved by the management board. 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 Bank, 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 Bank 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.

### 2.2.1. 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 Bank assesses this risk as immaterial.

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

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Upon origination, derivative financial instruments 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 derivative contracts may have significant impact on the Bank'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 Bank pays a fixed amount in certain currency and receives a fixed amount in another currency.

The Bank uses economic hedges for changes in currency exchange rates.

The nominal amounts in the table below show the volume of outstanding transactions related to derivative contracts as of 31 December 2020 and 31 December 2019.

| **31 December 2020** | **Assets** | **Liabilities** | **Nominal amount** |
|---|---|---|---|
| Derivatives aimed to hedge changes in interest rates/currency risk (FX swaps) | 2,145 | 4,432 | 302,072 |

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

As of 31 December 2020, the Bank had active derivative contracts concluded with the following counterparties: DSK Bank (Bulgaria), 4Finance SA (Luxembourg). The effect of the concluded derivative contracts in the net profit for the reporting period is a loss of BGN 1,877 thousand (2019: BGN 1,136 thousand).

### 2.2.2. Foreign currency risk

Fluctuations in foreign exchange rates have impact on the financial position and cash flows of the Bank and expose it to foreign currency risk. The management board sets limits to control the open foreign currency positions risk, which are monitored daily. As a rule, the Bank does not maintain material open positions in currencies other than the Bulgarian lev (BGN), Euro (EUR) and Romanian lei (RON). The Bank does not measure sensitivity to foreign currency risk for BGN and EUR, since as at 31 December 2020, the Bulgarian lev is pegged to the Euro. The open foreign currency position as of 31 December 2020, which amounted to BGN 166,959 thousand (2019: BGN 164,114 thousand), is hedged by means of currency forwards and swaps with a nominal amount of BGN 302,072 thousand (2019: FX forward of BGN 299,024 thousand).

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% fluctuation of the value of the local currency compared to all foreign currencies (other than EUR). The exchange rate BGN/EUR is pegged at a ratio 1.95583 as part of the Currency Board parameters.

| **As at 31 December 2020** | **Direct effect on profit/loss** |
|---|---|
| - 10% change of local currency | (19,788) |
| + 10% change of local currency | 19,788 |

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| As at 31 December 2019 | Direct effect on profit/loss |
|---|---|
| - 10% change of local currency | (16,359) |
| + 10% change of local currency | 16,359 |

The Bank considers that there is no significant sensitivity and material effect on capital since the Bank's exposure is managed by derivative financial instruments.

### 2.2.3. Interest rate risk

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

The Bank takes on risks related to the effect of changes in market interest rates both in respect of the value of its financial assets, and in respect of cash flows. As a result of such changes interest rate margins may increase but they may also decrease 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 interest rate items. The table below presents possible acceptable deviations selected based on the market and economic environment during the reporting period.

| At 31 December 2020 | Effect of changes in interest rates on profit/loss |
|---|---|
| +100 bp change | 1,911 |
| -100 bp change | (1,911) |

| At 31 December 2019 | Effect of changes in interest rates on profit/loss |
|---|---|
| +100 bp change | 2,524 |
| -100 bp change | (2,524) |

The Bank considers that there is no significant effect of interest risk on capital, since the change in interest rates does not have a significant impact on the revaluation of securities carried at fair value through other comprehensive income.

### 2.2.4. 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 2020 would lead to a decrease of BGN 243 thousand of the Group's equity value (2019: BGN 443 thousand). A similar increase in fair value would lead to a similar increase in equity.

## 2.3. 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. Fair value measurement is based on the presumption that the asset sale transaction or transfer of liability takes place either:

- in the principal market for that 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 Bank.

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The 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 (e.g. loan collateral) 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 Bank 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 Bank's management every year. Selection criteria for these experts include professional experience, qualities and reputation. Management decides, after discussions with the valuation experts, which valuation techniques and inputs to use for each case.

At each reporting date, management analyses the movements in the values of assets and liabilities which are subject to revaluation as per the Bank's accounting policies. This involves verification of the major inputs applied in the latest valuation and 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.

Since during 2019 and 2020 the Bank has generated new assets with characteristics similar to those of the assets generated during the previous reporting periods, management believes that there are no significant changes in the market conditions in which assets have been originated, and the parameters of their origination reflect an acceptable yield level for the respective type of financial instrument and risk appetite level.

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

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| **Financial assets** | | | | |
| Cash and balances with central banks | 147,341 | 97,657 | 147,341 | 97,657 |
| Due from banks | 18,684 | 11,158 | 18,684 | 11,158 |
| Derivative financial instruments | 2,145 | 745 | 2,145 | 745 |
| Loans to corporate customers | 140,568 | 138,247 | 143,141 | 138,137 |
| Loans to individuals | 482,744 | 448,119 | 482,820 | 448,195 |
| Financial assets at fair value through PL | 4,940 | – | 4,940 | – |
| Financial assets at fair value through OCI | 153,170 | 111,625 | 153,170 | 111,625 |
| Other receivables | 24,496 | 15,474 | 24,496 | 15,474 |
| **Financial liabilities** | | | | |
| Due to banks | 31,339 | 25,507 | 31,339 | 25,507 |
| Derivative financial instruments | 4,432 | 1,321 | 4,432 | 1,321 |
| Due to customers | 740,469 | 615,536 | 740,898 | 616,129 |
| Other liabilities | 22,107 | 21,790 | 22,107 | 21,790 |
| Other borrowings | 5,008 | 3,749 | 5,008 | 3,749 |

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

### 2.3.2. Financial assets and liabilities not carried at fair value

*Due from banks*

Amounts due from 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 but due to their short-term nature, management believes that their fair value approximates their carrying amounts as at 31 December 2020 and 31 December 2019.

*Loans to customers*

Loans to customers are carried at amortised cost less any credit loss 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 2020 and 2019, the Bank extended consumer loans mainly bearing fixed interest rates.

*Deposits from banks*

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 by applying interest rate statistical data published by the relevant central banks.

*Other fixed-rate 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 2020 and 2019 most of them bear floating interest rates.

*Other assets and liabilities*

Due to the short-term nature of other assets and liabilities, the Bank's management believes that their fair value approximates their carrying amounts as at 31 December 2020 and 31 December 2019.

### 2.3.3. Fair value hierarchy

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 of inputs which are 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 inputs that are significant to the fair value measurement are directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level inputs that are significant to the fair value measurement are unobservable.

For assets and liabilities that are measured at fair value on a recurring basis, the Bank reviews their categorisation at the respective fair value hierarchy level at the end of each reporting period and determines whether transfer(s) should be made between levels.

Information on the fair value hierarchy of the Bank's assets and liabilities measured as at 31 December 2020 and 31 December 2019 and any movements in the hierarchy during the respective financial period is presented in the following tables.

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**2.3.3.1. Quantitative disclosures on fair value hierarchy for 2020:**

| 31 December 2020 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Financial assets at fair value through PL | 4,940 | – | – | 4,940 |
| Financial assets at fair value through OCI | 153,078 | – | 92 | 153,170 |
| Loans to individuals | – | – | 1,879 | 1,879 |
| Derivative financial instruments | | 2,145 | | 2,145 |
| **Assets not measured at fair value** | | | | |
| Due from banks | – | 18,684 | – | 18,684 |
| Loans to corporate customers | – | – | 143,141 | 143,141 |
| Loans to individuals | – | – | 480,941 | 480,941 |
| **Liabilities measured at fair value** | | | | |
| Derivative financial instruments | – | 4,432 | – | 4,432 |
| **Liabilities not measured at fair value** | | | | |
| Due to banks | – | – | 31,339 | 31,339 |
| Due to customers | – | – | 740,898 | 740,898 |
| Other borrowings | – | – | 5,008 | 5,008 |

Reconciliation of Level 3 fair value measurement:

| | |
|---|---|
| **Assets measured at fair value (Level 3) as at 1 January 2020** | **9,964** |
| Transfers to Level 3 | – |
| Repayments on loans | (5,061) |
| Total loss recognized in other comprehensive income | (2,018) |
| Loss on assets derecognized | (328) |
| Write off assets | (2,283) |
| Newly acquired assets/(sales) of assets | 1,501 |
| Foreign currency differences | 196 |
| **Assets measured at fair value (Level 3) at 31 December 2020** | **1,971** |

Transfers were not made in 2020 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 2020:

| | Valuation technique | Significant observable inputs | Range (weighted-average) | Sensitivity analysis |
|---|---|---|---|---|
| Loans to customers | Discounted cash flows | 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% (7.08 %) | Increase/(decrease) in interest rates by 5 % would result in a change in the fair value |
| Due to customers | Discounted cash flows | 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 |

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**2.3.3.2. Quantitative disclosures on fair value hierarchy for 2019:**

| 31 December 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Financial assets at fair value through OCI | 107,100 | – | 4,525 | 111,625 |
| Loans to individuals | – | – | 5,439 | 5,439 |
| Derivative financial instruments | – | 745 | – | 745 |
| **Assets not measured at fair value** | | | | |
| Due from banks | – | 11,158 | – | 11,158 |
| Loans to corporate customers | – | – | 138,137 | 138,137 |
| Loans to individuals | – | – | 442,756 | 442,756 |
| **Liabilities measured at fair value** | | | | |
| Derivative financial instruments | – | 1,321 | – | 1,321 |
| **Liabilities not measured at fair value** | | | | |
| Due to banks | – | – | 25,507 | 25,507 |
| Due to customers | – | – | 616,129 | 616,129 |
| Other borrowings | – | – | 3,749 | 3,749 |

Reconciliation of Level 3 fair value measurement:

| | |
|---|---|
| **Assets measured at fair value (Level 3) as at 1 January 2019** | **11,318** |
| Total loss recognized in other comprehensive income | (6,793) |
| Newly acquired assets | 5,439 |
| **Assets measured at fair value (Level 3) at 31 December 2018** | **9,964** |

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 | Discounted cash flows | 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% (8.74%) | Increase/(decrease) in interest rates by 5 % would result in a change in the fair value |
| Due to customers | Discounted cash flows | Statistical data of Central banks for interest rates on new business by term deposits of sectors non-financial entities and households | 0.1% - 5.0% (2.55%) | Increase/(decrease) in interest rates by 2 % would result in a change in the fair value |
| Other borrowings | Discounted cash flows | Current interest rate on borrowings | 0% | |

## 2.4. Liquidity risk

Liquidity risk is the risk that the available cash resources of the Bank 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.

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### 2.4.1. Liquidity risk management process

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

- that sufficient liquid assets are available to meet 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 Bank assigns the Asset and Liability Management Committee, as the primary responsible unit, with the task to advise the management board on liquidity management strategy.

The Asset and Liability Management Committee manages:

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

The operational management of the Bank's assets and liabilities and the execution of the decisions of the Asset and Liability Management Committee are assigned to the head of the Financial Markets and Liquidity Department.

### 2.4.2. Financial liabilities

The table below presents the financial liabilities of the Bank, 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 2020** | **Gross outflow** | **Less than 1 month** | **1-3 months** | **3 -12 months** | **1-5 years** |
|---|---|---|---|---|---|
| Due to banks | 31,339 | 31,339 | – | – | – |
| Derivative financial instruments | 4,432 | 368 | 1,569 | 2,495 | – |
| Due to customers | 748,813 | 154,389 | 111,461 | 303,309 | 179,654 |
| Other liabilities | 28,053 | 8,876 | 18,254 | 918 | 5 |
| Other borrowings | 5,008 | 137 | 274 | 1,233 | 3,364 |
| *including: Lease liabilities* | *5,008* | *137* | *274* | *1,233* | *3,364* |
| **Total liabilities** | **817,645** | **195,109** | **131,558** | **307,955** | **183,023** |

| **As at 31 December 2019** | **Gross outflow** | **Less than 1 month** | **1-3 months** | **3 -12 months** | **1-5 years** |
|---|---|---|---|---|---|
| Due to banks | 25,507 | 25,507 | – | – | – |
| Derivative financial instruments | 1,321 | 182 | 32 | 1,107 | – |
| Due to customers | 621,988 | 64,224 | 236,790 | 189,375 | 131,599 |
| Other liabilities | 27,669 | 8,140 | 17,037 | 933 | 1,559 |
| Other borrowings | 3,815 | 117 | 239 | 1,043 | 2,416 |
| *including: Lease liabilities* | *3,805* | *117* | *229* | *1,043* | *2,416* |
| **Total liabilities** | **680,300** | **98,170** | **254,098** | **192,458** | **135,574** |

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### 2.4.3. Contingent liabilities and irrevocable commitments

The terms of the agreed amounts of contingent liabilities and irrevocable commitments, to which the Bank 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 2020 | Within 1 year | 1-5 years | Total |
|---|---|---|---|
| Financial guarantees | 297 | 68 | 365 |
| Good performance guarantees | 542 | – | 542 |
| Undrawn loan commitments | 19,815 | 8,227 | 28,042 |
| **Total** | **20,654** | **8,295** | **28,949** |

| As at 31 December 2019 | Within 1 year | 1-5 years | Total |
|---|---|---|---|
| Financial guarantees | 166 | – | 166 |
| Good performance guarantees | 520 | 27 | 547 |
| Undrawn loan commitments | 7,395 | 6,515 | 13,910 |
| **Total** | **8,081** | **6,542** | **14,623** |

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## 2.4.4. Net liquidity gap

The Bank 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 upon immediately prior to their maturity.

The table below presents an analysis of the Bank'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".

| As at 31 December 2020 | On demand / 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Not defined | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with central banks | 147,341 | – | – | – | – | – | **147,341** |
| Due from banks | 7,929 | – | 10,755 | – | – | – | **18,684** |
| Derivative financial instruments | – | 126 | 2,019 | – | – | – | **2,145** |
| Financial assets at fair value through PL | – | – | – | 4,940 | – | – | **4,940** |
| Financial assets at fair value through OCI | 267 | 2,795 | 15,412 | 67,412 | 64,759 | 2,525 | **153,170** |
| Loans to customers | 37,302 | 45,060 | 151,532 | 389,104 | 314 | – | **623,312** |
| Other assets | 22,345 | 3,829 | 623 | 483 | – | – | **27,280** |
| Current tax assets | 2,194 | – | – | – | – | – | **2,194** |
| Investment in subsidiaries | – | – | – | – | – | 16,401 | **16,401** |
| Intangible assets | – | – | – | – | – | 10,232 | **10,232** |
| Property, plant and equipment | – | – | – | – | – | 15,829 | **15,829** |
| Investment property | – | – | – | – | – | 1,632 | **1,632** |
| Deferred tax assets | 456 | – | – | – | – | – | **456** |
| Acquired collateral | – | – | – | – | – | 6,368 | **6,368** |
| **Total assets** | **217,834** | **51,810** | **180,341** | **461,939** | **65,073** | **52,987** | **1,029,984** |
| **Liabilities** | | | | | | | |
| Due to banks | 31,339 | – | – | – | – | – | **31,339** |
| Derivative financial instruments | 369 | 1,569 | 2,494 | – | – | – | **4,432** |
| Due to customers | 154,403 | 111,292 | 300,204 | 174,570 | – | – | **740,469** |
| Other liabilities | 8,876 | 18,254 | 1,122 | 5 | – | – | **28,257** |
| Other borrowings | 137 | 274 | 1,233 | 3,364 | – | – | **5,008** |
| **Total liabilities** | **195,124** | **131,389** | **305,053** | **177,939** | – | – | **809,505** |
| **Net liquidity gap** | **22,710** | **(79,579)** | **(124,712)** | **284,000** | **65,073** | **52,987** | **220,479** |
| **Cumulative cash flows** | **22,710** | **(56,869)** | **(181,581)** | **102,419** | **167,492** | **220,479** | **N/A** |

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| As at 31 December 2019 | On demand / 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Not defined | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with central banks | 97,657 | – | – | – | – | – | 97,657 |
| Due from banks | 3,337 | – | 7,821 | – | – | – | 11,158 |
| Derivative financial instruments | 167 | – | 578 | – | – | – | 745 |
| Financial assets at fair value through OCI | 203 | 7,716 | 11,688 | 63,908 | 23,585 | 4,525 | 111,625 |
| Loans to customers | 41,625 | 50,767 | 168,973 | 324,024 | 977 | – | 586,366 |
| Other assets | 16,336 | 592 | 631 | 816 | – | – | 18,375 |
| Current tax assets | 223 | – | – | – | – | – | 223 |
| Investment in subsidiaries | – | – | – | – | – | 16,401 | 16,401 |
| Intangible assets | – | – | – | – | – | 9,444 | 9,444 |
| Property, plant and equipment | – | – | – | – | – | 14,937 | 14,937 |
| Investment property | – | – | – | – | – | 1,707 | 1,707 |
| Deferred tax assets | 468 | – | – | – | – | – | 468 |
| Acquired collateral | – | – | – | – | – | 6,929 | 6,929 |
| **Total assets** | **160,016** | **59,075** | **189,691** | **388,748** | **24,562** | **53,943** | **876,035** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to banks | 25,507 | – | – | – | – | – | 25,507 |
| Derivative financial instruments | 182 | 32 | 1,107 | – | – | – | 1,321 |
| Due to customers | 64,173 | 235,706 | 188,086 | 127,571 | – | – | 615,536 |
| Other liabilities | 8,055 | 17,037 | 933 | 1,559 | – | – | 27,584 |
| Other borrowings | 113 | 235 | 1,014 | 2,387 | – | – | 3,749 |
| **Total liabilities** | **98,030** | **253,010** | **191,140** | **131,517** | – | – | **673,697** |
| | | | | | | | |
| **Net liquidity gap** | **61,986** | **(193,935)** | **(1,449)** | **257,231** | **24,562** | **53,943** | **202,338** |
| | | | | | | | |
| **Cumulative cash flows** | **61,986** | **(131,949)** | **(133,398)** | **123,833** | **148,395** | **202,338** | **N/A** |

### 2.4.5. Covid-19 pandemic

#### 2.4.5.1. Macroeconomic analysis and expectations

The current economic enovironment is characterised by a substantial GDP decrease in the EU area, the USA and the rest of the developed world. This leads to a shinkage in the demand for bank products, decrease of loan portfolios quality, and increase in competition.

The Bank has utilised models based on the basic macroeconomic indicators forecast assumptions of the Bulgarian National Bank, the National Bank of Romania, the International Monetary Fund, the European Central Bank, the Ministry of Finance of Bulgaria, and the Ministry of Finance of Romania.

Expectations for Bulgaria – according to the European Commission's forecast, economic recovery is expected, which will bring the country's economy back to pre-crisis levels by the end of 2022. The boost in export and consumption will have a positive effect on economic growth in the next two years, in line with the positive external demand and expected labour market trends. Investment activity is expected to recover gradually during 2021 due to the higher levels of uncertainty. Since overall investments will grow significantly during 2022 due to the improved cyclical position, it is expected that the economic growth will be triggered mostly by internal demand. Unemployment rose sharply during the first half of 2020, but is expected to return to lower levels in 2021, reaching 5.6%. Inflation is expacted to be 1.4% for 2021 and 1.8% for 2022, and GDP will reach 2.6% and 3.7%, respectively for the two years.

Expectations for Romania – real GDP is expected to recover by 3.5% and 3.75% for 2021 and 2022, respectively. Private consumption, investments and net exports are expected to grow. Unemployment is expected to continue rising during 2021, due to a delay in the labour market's response. It is expected to go down in 2022, but will not reach levels below 5%. Inflation is expected to remain confined to a narrow range during 2021 and 2022.

#### 2.4.5.2. Macroeconomic indicators and scenarios used

The macroeconomic indicators analysis performed by the Bank demonstrated a strong multicollinearity between certain factor variables, which could distort the interpretation of the regression models used. Because of that, the Bank chose one macroeconomic indicator for each georgrphic area, which has the highest correlation with the portfolio migration coefficient used in the regression models. The models developed by the Bank demonstrated strong correlation only between portfolio quality and unemployment for Bulgaria, and between portfolio quality and annual GDP growth for Romania.

The Bank has used two scenarios (baseline and negative), based on the above indicators, with regards to the assets that are impaired collectively, and three scenarios (baseline, positive and negative), with regards to the individually impaired assets. In the first case, the scenarios have relative weights of 50% each, while in the second case, the baseline scenario has a relative weight of 80%, while the positive and negative scenarios have weights of 10% each. The Bank has not changed the number of scenarios or the relative weights used, in comparison to the previous financial year, nor has it amended any of the corerlations and key economic indicators embedded in the models.

The Bank calculates annually the effect on loan portoflio impairment due to the application of the regression analysis of the correlation between the macroeconomic indicators and portfolio quality. The adequacy analysis of the resulting impairment charge as of 31 December 2020, based on the updated forecast for the respective macroeconomic indicators, and taking into account the effect of the pandemic, demonstrates sufficient degree of risk coverage by the current impairment levels.

#### 2.4.5.3. Payments moratorium

On 3 April 2020 the Governing Council of the Bulgarian National Bank decided to comply with the European Banking Authority's (EBA) guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02), and accordingly informed EBA of its decision. Consequently, the BNB approved and adopted a Procedure for Deferral and Settlement of Due Debts to Banks and Their Subsidiaries – Financial Institutions, which allowed changes in the repayment schedules for principal and/or interest on loans, without amending any key terms of the credit agreements. The Romanian authorities adopted similar measures in line with the EBA's requirements.

TBI Bank EAD applies reasonable management of the classification and impairment accrual process with regards to loans which have been subject to the above moratorium measures. The clients which have the right to moratorium are classified in the risk category in which they were included prior to the application of any grace periods. Improvement of the risk category as a result of postponing any payments is not permitted. In addition, impairment levels are kept conservative, so as to avoid underestimating the risk of credit quality deterioration. The debtors' behaviour is monitored on a monthly basis and every piece of information about overdue payments is taken into account. Most clients' behaviour after the end of the moratorium demonstrates the will and abilities on their side to service their obligations.

The moratorium approved business clients trends for Bulgaria as of 31 December 2020 are:

- Approved 107 clients from the beginning of the pandemic;
- Out of which 14 have fully extinguished their liabilities;
- The non-performing loans, in spite of the moratorium, consist of 8 cases for the total amount of BGN 1.3 million, out of which over BGN 1 million are attributable to one collateralised exposure. There are no reasonable expectations for realising the exposure at a loss.

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| Renegotiated loans | # | % | Exposure in BGN | % |
|---|---|---|---|---|
| Repaid | 14 | 13% | 1,357,911 | 18% |
| Stage 1 | 64 | 60% | 3,922,298 | 53% |
| Stage 2 | 21 | 20% | 882,813 | 12% |
| Stage 3 | 8 | 7% | 1,251,015 | 17% |
| **Total** | **107** | **100%** | **7,414,037** | **100%** |

The applied reasonable approach keeps the larger part of the portfolio serviced without observing any sharp quality deterioration after the end of the moratorium measures. The Bank will continue to monitor closely the performance of the portfolio and to reflect timely and accurately in its reports any non-performing clients.

The moratorium approved individual clients trends for Bulgaria as of 31 December 2020 are:

- A low relative share of the loans renegotiated under the moratorium measures – 2.9% of the balance sheet exposures to individuals, comprising 0.9% of contracts;
- For the period September – December 2020, 125 contracts were fully repaid, comprising 5.5% of the loans renegotiated under the moratorium measures;
- 67.5% of the exposures that have used the moratorium grace period, are being serviced regularly, without observing repayment issues after the end of the grace period;
- As of 31 December 2020, 85% of all renegotiated exposures have had due payments, with 39% having their first installment due after the moratorium period, in the month of December;
- The latter explains the reduction of the relative share of Stage 1 exposures during the fourth quarter of 2020 – the short collection period between the installment due date and the end of the month, in addition to the holiday season;
- The average balance sheet exposure of the moratoium renegotiated loans is about BGN 4,000, with monthly installment in the range of BGN 200, which is within the capabilities even of households with reduced income as a result of the pandemic environment;
- The expected credit losses have been increased for debtors which have repayment difficulties after the end of the grace period, as per the category of classification. The are all being monitered carefully, and are being informed of each part of the process, both before the end of the grace period and on the installments due dates.

| Renegotiated loans | # | % | Exposure in BGN | % |
|---|---|---|---|---|
| Stage 1 | 1,398 | 68% | 6,040,293 | 68% |
| Stage 2 | 347 | 17% | 1,481,198 | 17% |
| Stage 3 | 410 | 15% | 1,421,678 | 15% |
| **Total** | **2,155** | **100%** | **8,943,169** | **100%** |

The moratorium approved business clients trends for Romania as of 31 December 2020 are:

- Approved 698 clients from the beginning of the pandemic;
- Out of which 95 have fully extinguished their liabilities at the amount of BGN 8.8 million;
- The non-performing loans, in spite of the moratorium, consist of 60 cases for the total amount of BGN 3.9 million, representing 6% of the approved loans for moratorium measures. Over 72% of them are secured, with coverage exceeding 300%. There are no reasonable expectations for realising the exposure at a loss.

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| Renegotiated loans | # | % | Exposure in BGN | % |
|---|---|---|---|---|
| Repaid | 95 | 14% | 8,851,400 | 18% |
| Stage 1 | 437 | 63% | 24,403,748 | 49% |
| Stage 2 | 106 | 15% | 13,559,869 | 27% |
| Stage 3 | 60 | 9% | 3,192,781 | 6% |
| **Total** | **698** | **100%** | **50,007,798** | **100%** |

The moratorium approved individual clients trends for Romania as of 31 December 2020 are:

- A low relative share of the loans renegotiated under the moratorium measures – 10% of the balance sheet exposures to individuals;
- For the period September – December 2020, 1,014 contracts were fully repaid, comprising 7.2% of the loans renegotiated under the moratorium measures;
- 90% of the exposures that have used the moratorium grace period, are being serviced regularly, without observing repayment issues after the end of the grace period;
- The expected credit losses have been increased for debtors which have repayment difficulties after the end of the grace period, as per the category of classification. They are all being monitered carefully, and are being informed of each part of the process, both before the end of the grace period and on the installments due dates.

| Renegotiated loans | # | % | Exposure in BGN | % |
|---|---|---|---|---|
| Stage 1 | 6,611 | 81% | 21,061,646 | 80% |
| Stage 2 | 781 | 9% | 2,717,420 | 10% |
| Stage 3 | 806 | 10% | 2,546,709 | 10% |
| **Total** | 8,198 | 100% | 26,325,775 | 100% |

When performing the additional Pillar II capital and stress tests as part of the process of update of the Internal Capital Adequacy Analysis and Internal Liquidity Adequacy Analysis, the Bank has used forecast data for the next 3 years, which include the expected effect of the COVID-19 pandemic on the susceptability of the Bank to credit, market (incl. liquidity, interest and price), and operational risks. Conservative scenarios have been used for the preparation of the analysis. The Bank reports a high level of capital adequacy and basic capital, which exceeds the Pillar I and Pillar II capital requirements. All assets and liabilities have been included in the analysis of the required additional Pillar II capital and in the stress tests performed.

### 2.5. 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 Ordinance 58 issued by the Financial Supervision Commission. The Bank has approved rules and procedures regulating its fiduciary transactions for customers, which have been prepared based on the requirements of art.1-10 of the above Ordinance 58.

### 2.6. Capital management

The objectives of the Bank in managing capital, as a broader concept compared to the "equity" on the face of the statement of financial position, include:

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

Capital adequacy and the use of equity are monitored by the Bank'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, in its capacity of Regulatory Authority, for supervisory purposes. The information required is filed with latter on a regular basis.

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%, countercyclical buffer of 0.5%, as well as an individual capital requirement for the bank of 0.75%.

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

*(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 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 Bank includes the retained earnings from prior years in its capital, only once the audited separate financial statements are approved by the sole owner of the capital and dividend payments and other deductions have been accounted for.

Once included in 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 capital only if the following conditions are met:

- the maximum amount of expected dividend payments and other deductions is set;
- profit and taxes due are confirmed by the specialised audit firms employed by the Bank;
- a notice is sent to the Regulatory Authority with attached documents evidencing the circumstances related to mandatory conditions and the Regulatory Authority has not objected and/or has given its approval.

Tier-one capital is reduced by:

- the current and prior year losses;
- the carrying amount of treasury shares held by the Bank;
- the amount of intangible assets;
- the unrealised loss on financial assets carried at FVOCI.

The Bank 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 Bank;
- unrealised gain on investment properties and financial assets carried at FVOCI.

Equity is reduced by the carrying amount of investments in shares or other forms of shareholdings of more than 10% of the issued capital of a credit institution under the Credit Institutions Act, as well as investments in long-term debt (hybrid) instruments and subordinated debt in such institutions in which the Bank holds more than 10% of the issued capital, for each individual case, where they are not consolidated in the Bank's statement of financial position.

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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 credit, market and other related risks for each asset and counterparty, and 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 Bank's indicators as at 31 December of the respective reporting years. During these two years the Bank has complied with the capital requirements for credit institutions.

| | 2020 | 2019 |
|---|---|---|
| **Tier-one capital** | | |
| Issued capital | 81,600 | 81,600 |
| Reserves and retained earnings from prior years | 96,209 | 66,613 |
| Less: | | |
| *Intangible assets* | (6,887) | (9,444) |
| Other adjustments of tier-one capital | (5,955) | (18,501) |
| **Total Tier-one capital** | **164,967** | **129,268** |
| **Tier-two capital** | | |
| Subordinated term debt | – | – |
| **Total Tier-two capital** | – | – |
| **Total risk-weighted assets** | **834,029** | **700,020** |
| **Capital adequacy ratio** | **19,78%** | **17.18%** |

## 2.7. 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 Pillar One, which averages net interest income for the last three audited annual accounting periods.

| Net income 2017 | Net income 2018 | Net income 2019 | Capital requirements | Total amount of exposure to operational risk (x12.5) – 31.12.2020 |
|---|---|---|---|---|
| 92,374 | 138,013 | 165,053 | 15,930 | 199,125 |

The value of the actual operating losses incurred in 2020 for TBI Bank was BGN 91,609, including BGN 46,057 being reimbursed, representing 50% of the operational damage occurring in 2020.

# 3. Significant accounting estimates and judgements in applying the accounting policies

The preparation of the Bank'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. The uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment in future periods to the carrying amount of the asset or liability affected.

Accounting estimates and judgements are consistently applied and are based on 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 Bank'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 Bank 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 assessed for impairment both collectively and individually, and individuals are considered for impairment collectively. In determining whether 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.

Such evidence may include observable data, indicating adverse change in the borrowers' ability to meet their loan obligations in the respective portfolio, or the national or local economic conditions that correlate with defaults on the repayments of the loans to the Bank. Management uses estimates based on historical loss experience for assets with 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.

*Collaterals*

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 may be 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 2020, 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 those existing in a more active market.

*Assets acquired from foreclosure on collateral*

The assets acquired as collateral on loans are classified as assets acquired from foreclosure on collateral. The Bank measures collateral acquired in relation to non-performing loans at the lower of their value upon acquisition and the fair value less costs to sell. 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 Bank's management has committed to specific actions aimed at the realisation of these assets through sale.

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

The Bank 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 Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not the option to renew or terminate the lease will be exercised. That is, the Bank considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank 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.

*Provisions and contingent liabilities*

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it can be involved in various litigation, arbitration and regulatory investigations and proceedings, arising in the ordinary course of the its business. When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates. For further details on provisions and coningetn liabilities see Notes 25 and 26.

*Fair value of financial instruments, which are not actively traded*

When the fair values of the financial assets and liabilities in the statement of financial posistion cannot be determined by reference to an active market, they are calculated based on different techniques, which include the use of valuation models. The input data for these models are based, when possible, on observable market indicators. Otherwise assumptions need to be made in order to determine the fair value. These assumptions include factors like liquidity, volatility for long-term derivatives, discount rates, prepayments and default.

*Going concern*

The Bank's financial forecasts reflect the results that management considers most likely, based on the information available as of the date of signing of these consolidated financial statements. This includes the application of COVID-19 safe work practices and market changes.

In order to evaluate the flexibility of the Bank in the light of more unfavourable results, a sensitiviy analysis was carried out, reflecting a series of scenarios, based on the Bank's major risks and the negative economic trends in the Bank's enivronment. Management believes that the Bank will continue its activities as going concern in the context of COVID-19, and based on the results from the performed stress tests, the Bank will be able to deal also with a negative scenario. Management will continue to monitor strictly the development of the pandemic and will react accordingly.

Notes to the financial statements (tables in BGN'000) TBIBank

## 4. Net interest income

| | 2020 | 2019 |
|---|---|---|
| **Interest income calculated using the EIR method** | | |
| Loans to customers | 159,354 | 151,714 |
| *incl. impaired loans to customers* | *8,183* | *6,592* |
| Due from banks | 25 | 225 |
| Financial assets carried at fair value through OCI | 5,323 | 2,762 |
| **Total interest income applying EIR method** | **164,702** | **154,701** |
| | | |
| **Interest expenses calculated using the EIR method** | | |
| Due to banks | 1,150 | 858 |
| Due to customers | 8,364 | 6,300 |
| Other borrowings | 66 | 56 |
| **Total interest expenses applying EIR method** | **9,580** | **7,214** |
| | | |
| **Net interest income** | **155,122** | **147,487** |

## 5. Net fee and commission income

| | 2020 | 2019 |
|---|---|---|
| **Fee and commission income** | | |
| For activities as an insurance agent | 16,469 | 24,293 |
| For transaction-related and deposit-maintenance services | 1,953 | 2,772 |
| For issuance of guarantees and letters of credit | 40 | 48 |
| Total fee and commission income under contracts with customers | 18,462 | 27,113 |
| Other fees | 244 | 297 |
| **Total fee and commission income** | **18,706** | **27,410** |
| | | |
| **Fee and commission expenses** | | |
| Brokerage commissions | 1,205 | 4,310 |
| Bank transactions | 3,799 | 1,313 |
| Other fees | 21 | 29 |
| **Total fee and commission expense** | **5,025** | **5,652** |
| | | |
| **Net fee and commission income** | **13,681** | **21,758** |

Insurance agent's commission income originates from an insurance agency contract. Brokerage commissions relate to a credit brokerage contract.

## 6. Net trading losses

Net trading losses include results from swaps, forwards and spots: BGN 278 thousand (2019: BGN 1,403 thousand).

Notes to the financial statements (tables in BGN'000) TBIBank

## 7. Other gains/(losses) , net

| | 2020 | 2019 |
|---|---|---|
| Net loss on foreign currency translation | (3,177) | (1,686) |
| Net loss on derivative financial instruments | (1,877) | (1,136) |
| Net loss on sale of financial assets at fair value in OCI | (825) | – |
| Net loss on sale of assets acquired from foreclosure on collateral | (263) | 98 |
| Legal provisions | (67) | (54) |
| Other provisions | – | (893) |
| Net loss on derecognition of loans | (36) | (18) |
| Net loss on derecognition of other assets | | (1,263) |
| Net gain on other financial assets | 1,583 | 234 |
| **Total other operating expenses** | **(4,662)** | **(4,718)** |

The item Other provisions as of 31 December 2019 includes the amounts the Bank owes for reimbursement in cases of early termination of insurance policies concluded via the Bank.

## 8. Staff costs

| | 2020 | 2019 |
|---|---|---|
| Wages and salaries | 33,652 | 32,966 |
| Social security contributions | 3,600 | 3,614 |
| *incl. pension fund* | *1,979* | *2,024* |
| **Total staff costs** | **37,252** | **36,580** |

The number of the Group's employees at the end of 2020 is 1,099 (2019: 1,022 employees).

## 9. Other operating expenses

| | 2020 | 2019 |
|---|---|---|
| Loan administration services | 38,303 | 27,646 |
| IT services | 4,765 | 4,165 |
| Consulting, legal and other professional services | 4,512 | 4,067 |
| Other hired services | 3,419 | 5,124 |
| Marketing and advertising | 2,826 | 3,445 |
| Annual contribution to FOBR and DGF | 1,511 | 2,032 |
| Office materials | 1,382 | 1,359 |
| Operating lease rent | 245 | 298 |
| Tax expenses | 218 | 1,031 |
| Other | 4,139 | 4,342 |
| **Total other operating expenses** | **61,524** | **53,509** |

The item Consulting, legal and other professional services includes the amounts charged throughout the year for the services provided by the registered auditors of the Bank, as follows: for independent financial audit: BGN 244 thousand (2019: BGN 251 thousand), for advisory services: BGN 12 thousand (2019: 23 thousand), and for other non-audit services: BGN 9 thousand (2019: BGN 32 thousand).

Notes to the financial statements (tables in BGN'000) TBIBank

## 10. Tax expenses

| | 2020 | 2019 |
|---|---|---|
| Current income tax expense | 2,787 | 4,601 |
| Deferred tax benefit relating to temporary differences | 11 | (101) |
| **Income tax recognised in profit** | **2,798** | **4,500** |

The applicable income tax rate is 10% for both 2020 and 2019.

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

| | 2020 | 2019 |
|---|---|---|
| Receivable/(liability) as at 1 January | 223 | 2,032 |
| Current tax recognised in profit | (2,787) | (4,601) |
| Current tax recognised in other comprehensive income | 344 | 194 |
| Tax refunded during the year | (932) | (1,724) |
| Amounts paid during the year | 5,346 | 4,322 |
| **(Liability)/receivable at 31 December** | **2,194** | **223** |

The reconciliation between the income tax expense and the accounting profit multiplied by the tax rate applicable for the years ending 31 December 2020 and 2019 is presented below:

| | 2020 | 2019 |
|---|---|---|
| Profit before tax | 19,059 | 42,300 |
| *Nominal tax rate* | *10%* | *10%* |
| Tax on the basis of the nominal tax rate | 1,906 | 4,230 |
| Effects of different nominal tax rates in other jurisdictions | 747 | – |
| Tax effect of non-taxable amounts, net | 145 | 270 |
| **Tax expenses** | **2,798** | **4,500** |
| **Effective tax rate** | **14.68%** | **10.64%** |

The movement of deferred taxes recognised in accounting profit is related to the following temporary differences:

| | 2020 | 2019 |
|---|---|---|
| Increase in unused leaves provision | – | (8) |
| Increase in retirement benefit liability | (15) | (40) |
| Increase in other payables provision | 69 | (95) |
| Increase in bonus provision | (43) | 42 |
| **Deferred income tax benefit recognized in profit or loss** | **11** | **(101)** |

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

| | | |
|---|---|---|
| Revaluation of assets at FVOCI | 344 | (194) |
| **Tax benefit recognised in other comprehensive income** | **344** | **(194)** |

Notes to the financial statements (tables in BGN'000) TBIBank

Deferred taxes at 31 December 2020 and 2019 include only deferred tax assets, as follows:

| | 2020 | 2019 |
|---|---|---|
| **Deferred tax assets** | | |
| Unused leaves provision | 78 | 78 |
| Retirement benefits | 75 | 60 |
| Other payables provision | 25 | 95 |
| Bonus accrual | 278 | 235 |
| **Total** | **456** | **468** |

## 11. Cash on hand and balances with central banks

| | 2020 | 2019 |
|---|---|---|
| Cash on hand | 15,467 | 11,046 |
| Cash in accounts with central banks, other than Minimum statutory reserve | 66,075 | 28,505 |
| **Cash and cash equivalents for the purposes of cash flows (Note 31)** | **81,542** | **39,551** |
| Minimum statutory reserve | 65,799 | 58,106 |
| **Total cash on hand and cash in accounts with central banks** | **147,341** | **97,657** |

As at 31 December 2020, the statutory minimum reserves held with the Bulgarian National Bank (BNB) amounted to 10% (2019: 10%) of the deposits attracted, except for: 1) funds attracted from abroad (5%), and 2) funds attracted from other local banks (0%), through branches of a local bank abroad, and through debt/equity (hybrid) instruments, as subordinated term debt. As at 31 December 2020 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 for 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.

## 12. Due from banks

| | 2020 | 2019 |
|---|---|---|
| Deposits with local banks with original maturity of up to six months | 10,757 | 7,824 |
| Current accounts with foreign banks | 5,582 | 3,276 |
| Current accounts with local banks | 2,348 | 61 |
| *Allowance for expected credit losses* | *(3)* | *(3)* |
| **Included in cash and cash equivalents for the purpose of the statement of cash flows (Note 31)** | **7,929** | **3,337** |
| **Total due from banks** | **18,684** | **11,158** |

As at 31 December 2020 deposits serving as collateral on derivative financial instruments, as disclosed in Note 27, are included in Deposits with local banks with original maturity of up to six months.

Notes to the financial statements (tables in BGN'000) TBIBank

## 13. Financial assets at fair value

| Financial assets at fair value through OCI | 2020 | 2019 |
|---|---|---|
| **Government debt securities traded in an official market** | | |
| Government securities Bulgaria | 41,050 | – |
| Government securities Romania | 25,991 | 63,975 |
| Government securities Croatia | 9,296 | 11,601 |
| Government securities Montenegro | 7,914 | – |
| Government securities Serbia | 4,785 | 7,566 |
| **Total** | **89,036** | **83,142** |
| **Other debt securities traded in an official market** | | |
| Financial institutions | 50,449 | 23,958 |
| Non-financial companies | 11,160 | – |
| **Total** | **61,609** | **23,958** |
| Equity securities not traded in an official market | 92 | 92 |
| Equity securities traded in an official market | 2,433 | 4,433 |
| **Total** | **2,525** | **4,525** |
| **Total financial assets at fair value through OCI** | **153,170** | **111,625** |

The corporate and government bonds are issued in EUR and USD. Debt and equity securities are measured at fair value based on quoted market prices at the date of the financial statements.

Financial assets at fair value through PL include only debt securities traded in an official market.

## 14. Loans to customers

| | 2020 | 2019 |
|---|---|---|
| Corporate customers | 150,402 | 146,088 |
| Individuals | 563,442 | 510,372 |
| Staff | 1,421 | 1,551 |
| **Total loans to customers** | **715,265** | **658,011** |
| Allowance for expected credit losses (Note 16) | (91,953) | (71,645) |
| **Total net loans to customers** | **623,312** | **586,366** |

Loans to customers as at 31 December 2020 are carried at amortised cost, except for the amount of BGN 3,684 thousand (2019 г.: 6,191 thousand), representing loans to individuals that are carried at fair value through profit or loss. The fair value of the latter as at 31 December 2020 amounts to BGN 1,805 thousand (2019: 752 thousand).

Loans to customers include interest accrued of BGN 16,551 thousand (2019: BGN 15,663 thousand). Loans to customers bearing floating interest rates amount to BGN 137,473 thousand (2019: BGN 123,167 thousand), and loans to customers bearing fixed interest rate amount to BGN 577,792 thousand (2019: BGN 534,844 thousand).

Loans to customers, in their part of loans to corporate customers, include also receivables under finance lease contracts with book value of BGN null thousand as at 31 December 2020 (2019: BGN 15 thousand).

Notes to the financial statements (tables in BGN'000) TBIBank

| | 2020 | 2019 |
|---|---|---|
| Gross receivables from finance leases, due: | | |
| - not later than one year | – | 16 |
| - later than one and not later than five years | – | – |
| - later than five years | – | – |
| **Gross investment in finance leases** | – | **16** |
| Less gross earnings (finance charges) allocated to future periods | – | (1) |
| Less allowance for expected credit losses | – | (15) |
| **Net investment in finance leases** | – | – |

## 15. Credit loss expense on financial assets

The allowance for ECL on loans to customers as at 31 December 2020 is presented in the table below by stage and type of customer:

| Allowance for ECL on loans | Balance at 01.01.2020 | Changes in accrued credit impairment | Credits written off against provision | Foreign currency differences | Balance at 31.12.2020 |
|---|---|---|---|---|---|
| **Stage 1** | **(13,443)** | **(1,992)** | – | **270** | **(15,165)** |
| Corporate customers | (734) | (455) | – | 258 | (931) |
| Individuals | (12,709) | (1,537) | – | 12 | (14,234) |
| Collectively assessed | (13,375) | (1,936) | – | 289 | (15,022) |
| Individually assessed | (68) | (56) | – | (19) | (143) |
| **Stage 2** | **(7,048)** | **(2,623)** | – | **(89)** | **(9,760)** |
| Corporate customers | (581) | (540) | – | (127) | (1,248) |
| Individuals | (6,467) | (2,083) | – | 38 | (8,512) |
| Collectively assessed | (6,980) | (2,273) | – | (14) | (9,267) |
| Individually assessed | (68) | (350) | – | (75) | (493) |
| **Stage 3** | **(51,154)** | **(41,059)** | **24,315** | **870** | **(67,028)** |
| Corporate customers | (6,526) | (1,188) | - | 60 | (7,654) |
| Individuals | (44,628) | (39,871) | 24,315 | 810 | (59,374) |
| Collectively assessed | (46,906) | (40,856) | 24,315 | 1,459 | (61,988) |
| Individually assessed | (4,248) | (203) | - | (589) | (5,040) |
| **Total** | **(71,645)** | **(45,674)** | **24,315** | **1,051** | **(91,953)** |

Loans to customers below include sales at the amount of BGN 5,373 thousand.

| Credit loss on financial assets 2020 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Financial assets at fair value through OCI | (579) | – | – | **(579)** |
| Due from banks | – | – | – | – |
| Loans to customers and leases | (1,992) | (2,623) | (35,686) | **(40,301)** |
| *including: income from sale of debts* | – | – | 5,373 | 5,373 |
| **Total** | **(2,571)** | **(2,623)** | **(35,686)** | **(40,880)** |

Notes to the financial statements (tables in BGN'000) TBIBank

| Allowance for ECL on loans | Balance at 01.01.2019 | Changes in accrued credit impairment | Credits written off against provision | Foreign currency differences | Balance at 31.12.2019 |
|---|---|---|---|---|---|
| **Stage 1** | **(14,175)** | **439** | **–** | **293** | **(13,443)** |
| Corporate customers | (794) | (228) | – | 288 | (734) |
| Individuals | (13,381) | 667 | – | 5 | (12,709) |
| Collectively assessed | (14,114) | 446 | – | 293 | (13,375) |
| Individually assessed | (61) | (7) | – | – | (68) |
| **Stage 2** | **(7,872)** | **129** | – | **695** | **(7,048)** |
| Corporate customers | (425) | (847) | – | 691 | (581) |
| Individuals | (7,447) | 976 | – | 4 | (6,467) |
| Collectively assessed | (7,808) | 139 | – | 689 | (6,980) |
| Individually assessed | (64) | (10) | – | 6 | (68) |
| **Stage 3** | **(42,767)** | **(33,765)** | **25,144** | **234** | **(51,154)** |
| Corporate customers | (4,475) | (1,230) | – | (821) | (6,526) |
| Individuals | (38,292) | (32,535) | 25,144 | 1,055 | (44,628) |
| Collectively assessed | (39,249) | (33,051) | 25,144 | 250 | (46,906) |
| Individually assessed | (3,518) | (714) | – | (16) | (4,248) |
| **Total** | **(64,814)** | **(33,197)** | **25,144** | **1,222** | **(71,645)** |

Loans to customers below include sales at the amount of BGN 7,109 thousand.

| Credit loss on financial assets 2019 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Financial assets at fair value through OCI | (89) | – | – | **(89)** |
| Due from banks | 3 | – | – | **3** |
| Loans to customers and leases | 439 | 129 | (26,656) | **(26,088)** |
| *including: income from sale of debts* | – | – | 7,109 | 7,109 |
| **Total** | **353** | **129** | **(26,656)** | **(26,174)** |

Notes to the financial statements (tables in BGN'000) TBIBank

### 16. Structure of the loan portfolio by economic sectors

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

| | 2020 | 2020 | 2019 | 2019 |
|---|---|---|---|---|
| Construction and real estate | 69,150 | 9.67% | 65,630 | 9.97% |
| Tourism | 24,799 | 3.47% | 19,474 | 2.96% |
| Services | 21,251 | 2.97% | 23,287 | 3.54% |
| Commerce | 16,268 | 2.27% | 16,222 | 2.47% |
| Agriculture | 9,308 | 1.30% | 10,356 | 1.57% |
| Manufacturing | 7,072 | 0.99% | 8,889 | 1.35% |
| Other financial institutions | 2,554 | 0.36% | 2,230 | 0.34% |
| Individuals | 563,442 | 78.77% | 510,372 | 77.56% |
| Staff | 1,421 | 0.20% | 1,551 | 0.24% |
| **Total loans to customers** | **715,265** | **100.00%** | **658,011** | **100.00%** |

The ten largest loans to customers as of 31 December 2020 represent 5.17% of the Bank's portfolio, net of provisions (2019: 6.38%).

### 17. Assets acquired from foreclosure on collateral

| | 2020 | 2019 |
|---|---|---|
| Book value | 7,416 | 7,650 |
| Accumulated impairment | (1,048) | (721) |
| **Total assets acquired from foreclosure on collateral** | **6,368** | **6,929** |

At 31 December 2020, assets repossessed by the Bank under terminated or past due loan contracts amounted to BGN 6,368 thousand net of impairment (2019: BGN 6,929 thousand). The Bank accrued impairment of BGN 1,048 thousand at 31 December 2019 (2019: BGN 721 thousand).

In 2019, through a sale, the Bank sold assets recognised in these category of the amount of BGN 153 thousand (2018 : BGN 920 thousand).

In 2020 and 2019, the Bank did not acquire assets from foreclosure on collateral.

The Bank 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 collateral is as follows:

| | |
|---|---|
| **At 1 January 2019** | **131** |
| Impairment charged | 598 |
| Impairment written off | – |
| Foreign currency difference | (8) |
| **At 31 December 2019** | **721** |
| Impairment charged | 331 |
| Impairment written off | - |
| Foreign currency difference | (4) |
| **At 31 December 2020** | **1,048** |

Notes to the financial statements (tables in BGN'000) TBIBank

## 18. Intangible assets

| | Software | Other | Total |
|---|---|---|---|
| **Balance at 1 January 2019** | | | |
| Book value | 6,197 | 3,483 | 9,680 |
| Accumulated amortisation | (3,886) | – | (3,886) |
| **Carrying amount** | **2,311** | **3,483** | **5,794** |
| **Year ending 31 December 2019** | | | |
| Carrying amount at the beginning of the year | 2,311 | 3,483 | 5,794 |
| Additions | 1,453 | 3,249 | 4,702 |
| Transfers | 20 | (20) | – |
| Foreign currency differences | (11) | – | (11) |
| Amortisation | (1,041) | – | (1,041) |
| **Carrying amount at the year-end** | **2,732** | **6,712** | **9,444** |
| **As of 31 December 2019** | | | |
| Book value | 7,641 | 6,712 | 14,353 |
| Accumulated amortisation | (4,909) | – | (4,909) |
| **Carrying amount at the year-end** | **2,732** | **6,712** | **9,444** |
| **Year ending 31 December 2020** | | | |
| Carrying amount at the beginning of the year | 2,732 | 6,712 | 9,444 |
| Additions | 907 | 2,913 | 3,820 |
| Disposals | – | (1,544) | (1,544) |
| Transfers | 3,211 | (3,211) | – |
| Foreign currency differences | (9) | 19 | 10 |
| Amortisation | (1,476) | (22) | (1,498) |
| **Carrying amount at the year-end** | **5,365** | **4,867** | **10,232** |
| **At 31 December 2020** | | | |
| Book value | 11,737 | 4,889 | 16,626 |
| Accumulated amortisation | (6,372) | (22) | (6,394) |
| **Carrying amount at the year-end** | **5,365** | **4,867** | **10,232** |

At the end of 2020, the book value of intangible assets, fully amortised, but still in use, amounted to BGN 2,804 thousand (2019: BGN 2,736 thousand).

Notes to the financial statements (tables in BGN'000) TBIBank

## 19. Property and equipment; investment property

| | Buildings | Equipment | Leasehold improvements | Right-of-use assets Buildings | Right-of-use assets Other | Total property and equipment | Investment property |
|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | | |
| Book value | 8,395 | 5,493 | 861 | – | – | 14,749 | 2,221 |
| Accumulated depreciation | (1,322) | (3,707) | (519) | – | – | (5,548) | (399) |
| **Carrying amount** | **7,073** | **1,786** | **342** | – | – | **9,201** | **1,822** |
| **Carrying amount at 1 January 2019** | 7,073 | 1,786 | 342 | – | – | 9,201 | 1,822 |
| First time adoption of IFRS 16 | – | – | – | 4,740 | 806 | 5,546 | – |
| Additions | 151 | 2,652 | 308 | 66 | – | 3,177 | – |
| Transfers | 108 | – | (108) | – | – | – | – |
| Foreign currency differences | (135) | – | (11) | 12 | – | (134) | (45) |
| Depreciation | (223) | (625) | (68) | (1,638) | (299) | (2,852) | (70) |
| **Carrying amount at 31 December 2019** | **6,974** | **3,813** | **463** | **3,180** | **507** | **14,937** | **1,707** |
| **At 31 December 2019** | | | | | | | |
| Book value | 8,527 | 8,131 | 1,055 | 7,336 | 1,313 | 26,362 | 2,166 |
| Accumulated depreciation | (1,553) | (4,318) | (592) | (4,156) | (806) | (11,425) | (459) |
| **Carrying amount** | **6,974** | **3,813** | **463** | **3,180** | **507** | **14,937** | **1,707** |
| **Carrying amount at 1 January 2019** | 6,974 | 3,813 | 463 | 3,180 | 507 | 14,937 | 1,707 |
| Additions | 44 | 461 | 279 | 3,349 | 684 | 4,817 | – |
| Отписани активи | – | – | – | (526) | (24) | (550) | – |
| Transfers | – | – | – | – | – | – | – |
| Impairments | – | – | – | – | – | – | – |
| Foreign currency differences | (101) | (1) | (2) | (10) | – | (144) | 2 |
| Depreciation | (259) | (705) | (97) | (1,787) | (383) | (3,231) | (77) |
| **Caryying amount at 31 December 2020** | **6,658** | **3,568** | **643** | **4 176** | **784** | **15,829** | **1,632** |
| **At 31 December 2020** | | | | | | | |
| Book value | 8,440 | 8,581 | 1,331 | 9,769 | 1,396 | 29,517 | 2,168 |
| Accumulated depreciation | (1,782) | (5,013) | (688) | (5,593) | (612) | (13,688) | (536) |
| **Carrying amount** | **6,658** | **3,568** | **643** | **4,176** | **784** | **15,829** | **1,632** |

In 2020 and 2019, no equipment was written off.

At the end of 2020, the book value of property and equipment, fully depreciated, but still in use, amounted to BGN 3,571 thousand (2019: BGN 3,501 thousand).

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***Investment property***

The Bank's branch in Romania provides part of its headquarters office's building for paid use to two of its subsidiaries under operating leases. This investment property is carried at historical cost and is depreciated under the straight-line method at a depreciation rate of 4%.

Lease income from the property in 2020 amounts to BGN 141 thousand (2019: BGN 133 thousand); it is set in a fixed amount only. Expenses, including those on repair and maintenance, relating to the property amount to zero for 2019 and 2020.

The Bank manages the risk relating to the rights over these assets by monitoring the subsidiaries' financial performance and actively participating in their control on an ongoing basis. The property is not subject to encumbrances and there are no obstacles for it being sold on the market.

The fair value of the property as at 31 December 2020 is BGN 1,455 thousand (2019: BGN 1,786 thousand) according to a valuation made by a specialized independent valuation company based on a market approach, and it has been classified in Level 2 of the fair value hierarchy.

The valuations have been carried out by independent external valuers duly qualified and having the required experience in assessing real estate. The valuations, which meet International Valuation Standards, have been obtained by employing valuation methods set by the standards as well as references of market evidence from transactions at offer prices of similar properties.

The valuation methods used are the comparative sales method and amortised recovery cost method.

## 20. Investments in subsidiaries

| | 2020 г. | 2019 г. |
|---|---|---|
| 4Finance EOOD | 5,253 | 5,253 |
| TBI Money IFN S.A. | 8,214 | 8,214 |
| TBI Leasing IFN S.A. | 2,934 | 2,934 |
| **Total** | **16,401** | **16,401** |

In 2019, the management board of the Bank resolved on acquiring all company shares of the capital of 4Finance EOOD, namely 8,100,000.00 (eight million and one hundred thousand) company shares representing 100% (one hundred percent) of the capital of 4Finance EOOD. The market value was determined by an external valuer. According to the valuation, the fair value of the company shares was estimated to be equal to EUR 2,686,000 (two million six hundred and eighty-six thousand).

## 21. Other assets

| | 2020 | 2019 |
|---|---|---|
| Assignment receivables | 17,394 | 13,207 |
| Margin call for derivatives (blocked amounts) | 3,545 | – |
| Receivables from suppliers | 2,522 | 1,999 |
| Prepayments | 762 | 902 |
| Collateral MasterCard | 311 | 688 |
| Other receivables | 2,746 | 1,579 |
| **Total other assets** | **27,280** | **18,375** |

As at 31 December 2020 and 31 December 2019, other receivables are neither past due, nor impaired, as the loss at default is 0%, and were classified in Stage 1. The other financial assets include monthly receivables on assignment agreements at amortised cost.

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## 22. Due to banks

| | 2020 | 2019 |
|---|---|---|
| Due to banks | 31,339 | 25,507 |
| **Total deposits due to banks** | **31,339** | **25,507** |

Deposits due to banks at 31 December 2020 comprise short-term deposits on the interbank money market with residual maturity of 1 month.

## 23. Due to customers

| | 2020 | 2019 |
|---|---|---|
| Corporate customers | | |
| - current/settlement accounts | 42,280 | 39,874 |
| - term deposits | 30,408 | 26,430 |
| Individuals | | |
| - current/settlement accounts | 64,798 | 52,364 |
| - term deposits | 602,983 | 496,868 |
| **Total deposits due to customers** | **740,469** | **615,536** |

Deposits due to customers at the end of 2020 include interest payable of BGN 5,825 thousand (2019: BGN 3,616 thousand), with an average interest rate of 1.23% (2019: 1.54%).

## 24. Other liabilities

| | 2020 | 2019 |
|---|---|---|
| Payables to traders and suppliers | 10,428 | 11,991 |
| Prepaid repayment instalments on loans to individuals | 9,934 | 8,503 |
| Payables to employees | 3,612 | 3,959 |
| Unused leave provisions | 1,252 | 784 |
| Retirement benefit provisions | 784 | 714 |
| Transfers for execution | 654 | 137 |
| Tax payable, other than income tax | 298 | 199 |
| Other provisions (Note 7) | 258 | 893 |
| Other liabilities | 1,037 | 403 |
| **Total other liabilities** | **28,257** | **27,584** |

Prepaid repayment instalments on loans to individuals represent instalments that have not matured yet. Upon request by a customer, the Bank is obliged to refund the amounts to the respective borrower. Litigation provisions accrued as of 31 December 2020 amounted to BGN 67 thousand (2019: 54 thousand).

## 25. Other borrowings

| | 2020 | 2019 |
|---|---|---|
| State Fund "Agriculture" | – | 10 |
| Lease liabilities | 5,008 | 3,739 |
| **Total other borrowings** | **5,008** | **3,749** |

Notes to the financial statements (tables in BGN'000) TBIBank

## 26. Contingent liabilities and irrevocable commitments

The Bank'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 Bank 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 Bank to maintain continuously amounts available up to those agreed to in the credit line agreements. Upon expiry of the fixed deadline the obligations, regardless of whether utilised or not, the contingency for the Bank expires as well.

Guarantees and letters of credit obliged the Bank, 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 Bank recognises the provision in its financial statements for the period of the occurred change.

The contingent liabilities and irrevocable commitments (except for operating lease commitments) of the Bank at 31 December 2020 and 31 December 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| **Guarantees** | | |
| Corporate customers | 907 | 713 |
| **Undrawn credit commitments** | | |
| Corporate customers | 21,706 | 7,608 |
| Individuals | 6,336 | 6,302 |
| **Total contingent liabilities and irrevocable commitments** | **28,949** | **14,623** |

In addition to the above contingent liabilities the Bank also faces a claim for allegedly due but unpaid lawyer fees to Right Decision EOOD at the amount of BGN 1,567 thousand. On 28 October 2020 the first instance court announced its court decision on the website of the Sofia District Court – the court dismissed Right Decision EOOD's claim in full. The decision has been appealed.

## 27. Pledged assets

As of 31 December 2020, the Bank pledged as collateral deposits placed with banks against derivative contracts concluded (FX swaps), representing economic hedging transactions of the currency risk found. The Bank has no right to dispose of the deposits provided as collateral prior to the expiry of the contract term. The outcome of FX risk hedging at 31 December 2020 and 31 December 2019 is summarized in Note 2. Other assets consist of a guarantee deposit to the benefit of Mastercard.

| | 2020 | 2019 |
|---|---|---|
| Placements with foreign banks | | – |
| Placements with local banks | 10,755 | 7,821 |
| Other assets | 311 | 688 |
| **Total pledged assets** | **11,066** | **8,509** |

## 28. Equity

The total number of the registered ordinary dematerialised shares at 31 December 2020 is 81,600,000 (2019: 81,600,000), with par value of BGN 1 each. All shares are fully paid-in and vest equal voting rights.

The Bank's management has not changed its capital management methodology as compared to 2019.

*Issued capital*

The table below presents the majority shareholders of the Bank at the end of 2020 and 2019:

**Notes to the financial statements (tables in BGN'000)** TBIBank

| | 31 December 2020 BGN | % | 31 December 2019 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%** |

There were no changes in 2020 and 2019 in the number of the required capital and the number of shares.

*Reserve from translation of financial statements of foreign operations*

The reserve from translation of financial statements of foreign operations as at 31 December 2020 is negative and amounts to BGN 634 thousand (2019: BGN 362 thousand, negative) and includes the translation of the operations of the branch of the Bank in Romania from its functional currency – the new Romanian leu (RON) into the presentation currency of the Bank – Bulgarian levs.

*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 2020, the accumulated revaluation reserve was negative and amounted to BGN 4,941 thousand (2018: BGN 6,549 thousand, negative).

*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 Articles of Association.

If the amounts in the Reserves Fund fall below the minimum the Bank 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 2020, the Reserves Fund amounted to BGN 8,350 thousand (2019: BGN 8,350 thousand).

## 29. Cash and cash equivalents

| | 2020 | 2019 |
|---|---|---|
| Cash at central banks other than the minimum statutory reserve (Note 11) | 81,542 | 39,551 |
| Due from banks (Note 12) | 7,929 | 3,337 |
| **Total cash and cash equivalents** | **89,471** | **42,888** |

Deposits with foreign banks provided by the Bank 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 2020.

Notes to the financial statements (tables in BGN'000) TBIBank

| | 1 January 2020 | 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 2020 |
|---|---|---|---|---|---|---|---|---|
| Current interest-bearing loans and borrowings | 10 | – | (10) | – | – | – | – | – |
| Lease liabilities | 3,739 | – | (2,437) | 1 | 1 | 3,704 | – | 5,008 |
| **Total liabilities from financing activity** | **3,749** | **–** | **(2,447)** | **1** | **1** | **3,704** | **–** | **5,008** |

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 and 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 | – | 102 | – | – | – | – | 10 |
| Lease liabilities | 5,573 | – | 1,957 | – | 57 | 66 | – | 3,739 |
| Dividends paid | – | – | 15,647 | – | – | – | – | – |
| **Total liabilities from financing activity** | **5,685** | – | **17,706** | – | **57** | **66** | – | **3,749** |

## 30. Related party transactions

In the ordinary course of business the Bank carries out bank transactions with related parties based on the principle of equality and parties' independence, and are carried out at contract prices. These include mostly loans and deposits, and also purchase of receivables with the aim to invest the Bank's free cash. As at 31 December 2020, the Bank did not set aside provisions for overdue receivables relating to funds provided to related parties (2019: Nil). Such evaluation is carried out annually, by conducting an analysis of the financial performance and the market in which these related parties operate.

In 2020, the Bank acquired portfolios of retail consumer loans from its subsidiary TBI Money IFN S.A. amounting to BGN 202,651 thousand (2019: BGN 152,781 thousand) and from Zaplo INF S.A. (Poland) amounting to BGN 1,799 thousand (2019: 1,916 thousand). TBI Money IFN S.A. and Zaplo INF S.A. (Poland) collect the instalments due in favour of the Bank on fixed interest rate portfolios. The portfolios acquired by the Bank are classified as consumer loans and as at 31 December 2020, they amounted to BGN 204,450 thousand (2019: BGN 154,697 thousand).

*Parent company*

As at 31 December 2020, the Bank is controlled by TBIF Financial Services B.V. (registered in the Netherlands), which holds 100% of the ordinary dematerialised shares of the Bank.

The ultimate parent company is Tirona Limited, Cyprus.

*Subsidiaries*

Notes to the financial statements (tables in BGN'000) TBIBank

As at 31 December 2020, the Bank holds 99.99% of the capital of TBI Money IFN S.A., 99.99% of the capital of TBI Leasing IFN S.A, and 100% of the capital of 4Finance EOOD. These companies are treated as subsidiaries of the Bank.

*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), Aviatiq Support SRL, 4Spar AB, Ferrymill Lumited and Zaplo SP ZOO (Poland), are other related parties to the Group as they are under the control of the ultimate parent.

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

| 31 December 2020 | Parent company | Subsidiaries | Other | Total |
|---|---|---|---|---|
| Debt securities | – | – | 10 163 | 10 163 |
| Loans granted | – | 1 182 | 5 | 1 187 |
| Borrowings | – | 18 654 | – | 18 654 |
| Puchase of receivables | – | 202 651 | 1 799 | 204 450 |
| Interest income | – | 207 | 1 174 | 1 381 |
| Fee and commission income | 2 | 79 | 333 | 414 |
| Other operating income | – | 718 | – | 718 |
| Other operating expenses | – | 40 285 | 47 | 40 332 |

| 31 December 2019 | Parent company | Subsidiaries | Other | Total |
|---|---|---|---|---|
| Debt securities | – | – | 10,539 | 10,539 |
| Loans granted | – | 1,604 | 5 | 1,609 |
| Other assets | – | 13,307 | – | 13,307 |
| Borrowings | 981 | 6,589 | 9,311 | 16,881 |
| Acquisition of a company | 5,253 | – | – | 5,253 |
| Other liabilities | – | 2,724 | – | 2,724 |
| Purchase of receivables | – | 152,781 | 7,550 | 160,331 |
| Interest income | – | 103 | 1,181 | 1,284 |
| Fee and commission income | 4 | 79 | 1,055 | 1,138 |
| Other operating income | – | 806 | – | 806 |
| Other operating expenses | – | 29,880 | 11 | 29,891 |

The total remuneration paid to the key management staff in 2020 amounts to BGN 1,568 thousand (2019: BGN 1,566 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 2020 amounts to BGN 1,760 thousand (2019: BGN 1,858 thousand) and are short-term in its nature. Other benefits were not paid to management, including pension plans, share based payments, etc.

Notes to the financial statements (tables in BGN'000)

## 31. Disclosure under Art. 70 of the Credit Institutions Law

Data as at 31 December 2020, before consolidation eliminations:

| Name | Description of the activity | Registered address | Turnover amount | Number of employees | Pre-tax profit | Tax accrued | Profitability on assets |
|---|---|---|---|---|---|---|---|
| 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 | 166 392 | 969 | 21 482 | 2 798 | 2% |
| 4 FINANCE EOOD, Bulgaria | Consumer lending | Sofia | 10 968 | 59 | 2 055 | (103) | 26% |
| TBI Bank EAD – 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 | 16 323 | 130 | (2 261) | – | (1)% |
| TBI Money IFN S.A., Romania | Consumer lending | Bucharest | 70 791 | 506 | 20 654 | 3 784 | 23% |
| TBI Leasing IFN S.A., Romania | Provision of assets under finance lease agreements | Bucharest | 1 659 | 64 | 382 | 72 | 4% |

Notes to the financial statements (tables in BGN'000) TBIBank

Data as at 31 December 2019, before consolidation eliminations:

| Name | Description of the activity | Registered address | Turnover amount | Number of employees | Pre-tax profit | Tax accrued | Profitability on assets |
|---|---|---|---|---|---|---|---|
| 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% |
| TBI Bank EAD – 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) | – | (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 lease agreements | Bucharest | 2,613 | 73 | 1,044 | 212 | 10% |

## 32. Events after the date of the statement of financial position

No material events have occurred after the balance sheet date, which may require adjustments or disclosures in the financial statements as at 31 December 2020.