EUROBANK BULGARIA AD
FINANCIAL STATEMENTS
31 DECEMBER 2020

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Independent Auditors' Report

To the shareholders of Eurobank Bulgaria AD

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Eurobank Bulgaria AD (the Bank) as set out on pages 46 to 173, which comprise the statement of financial position as at 31 December 2020 and the income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying 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 "Auditors' Responsibilities for the Audit of the 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 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.

Key Audit Matters

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

We have determined the following key audit matter:

Expected credit losses ("ECL") related to loans and advances to customers

As at 31 December 2020, the financial statements include:

- Gross loans and advances to customers of BGN 8,063,843 thousand (31 December 2019: BGN 7,422,527 thousand) and ECL allowance of BGN 264,968 thousand (31 December 2019 ECL allowance: BGN 310,786 thousand), as presented in note 18 to the financial statements.
- Impairment charge for credit losses recognized in the income statement of BGN 82,719 thousand (2019: BGN 66,370 thousand), as presented in note 12 to the financial statements.

Also refer to the following notes to the financial statements:

- 2.2.15 Impairment of financial assets
- 3.1 Impairment losses on loans and advances
- 5.2.1 Credit risk

Key audit matter	*How this key audit matter was addressed in our audit*
As described in the notes to the financial statements, the expected credit losses have been determined in accordance with the Bank's accounting policies based on the requirements of IFRS 9 Financial Instruments ("IFRS 9"). As required by IFRS 9, the Bank estimates the expected credit losses considering a stage allocation of the loan exposures. We focused on this area because of the magnitude of the related balances as well as the complex accounting requirements of IFRS 9 including assumptions made to assess and measure the ECL (e.g. macro-economic inputs, ECL risk modelling) which	Our audit procedures performed where applicable with the assistance of our financial risk management specialists, included among others: — Evaluating the appropriateness of the accounting policies and impairment methodology based on the requirements of the relevant accounting standard, our business understanding and industry practice. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors;

require significant judgement to determine the expected credit losses.

The Management Board is required to make judgements as to whether there is any significant increase in credit risk since initial recognition or any objective evidence of impairment, based on the assessment of the borrower's debt service and probability of default, and as to the future cash flows expected from the borrower.

For stage 1 and stage 2, as well as stage 3 exposures not exceeding specific thresholds set for different segments as per the Bank's "Accounting policy for impairment of lending exposures", the expected credit losses are determined based on statistical models using the Bank's historical data and also forward-looking information (e.g. gross domestic product growth) and macroeconomic scenarios, taking into account similar credit risk characteristics. The Management Board's key assumptions in this area are the probability of borrower's default and the assessment of the amount non-recoverable from the borrower in the event of a default ("loss given default"), considering as well the impact of COVID-19 and related moratorium measures (such as payment deferrals) on the borrower behaviours, unlikeliness to pay and underlying significant increase in credit risk.

For Stage 3 exposures in excess of specific thresholds set for different segments as per the Bank's "Accounting policy for impairment of lending exposures", expected credit losses are determined on an individual basis by means of a discounted cash flows analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the expected proceeds from the sale of the related collateral and minimum period for collateral disposal.

In the wake of the above factors, coupled with the significantly higher estimation uncertainty stemming from the impact of the COVID-19 global pandemic on multiple sectors of the economy, we considered expected credit losses to be associated with a significant risk of material misstatement in the financial statements.

Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.

— Making relevant inquiries of the Bank's risk management, internal audit and information technology (IT) personnel in order to obtain an understanding of the ECL calculation process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Bank's IT control environment for access and program change, assisted by our own Information Risk Management specialists;

— Assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the appropriateness of the classification of exposures into performing and impaired, calculation of days past due, stage allocation and calculation of the ECL;

— For a sample of loans and advances to customers selected based on specific items testing, critically assessing, by reference to the underlying documentation (updated financial indicators, repayment pattern, default events, forborne status) and through inquiry with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2020;

— For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation and collateral values and, where relevant, with the assistance from our own valuation specialists;

— Obtaining the relevant macroeconomic forecasts of the Bank and critically assessing the Bank's assessment of the forward-looking information and macroeconomic scenarios used in the calculation of the ECL. Independently checking the information by means of comparing factors used by the Bank to publicly available information;

— Recalculating the probability of default and loss given default for a selection of the Bank's portfolios, including testing the completeness and accuracy of underlying historical data used in the Bank's process of calculating the above parameters;

— Testing material in-model and post-model COVID-19 related adjustments. Assessing the completeness of these adjustments and their appropriateness by considering the data, assumptions and methodology used in calculating the adjustments;

— Recalculating the expected credit losses as of 31 December 2020 based on the Bank's ECL model for a selection of the Bank's portfolios;

— Examining whether the Bank's ECL disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

Information Other than the Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the annual activity report, 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 financial statements and our auditors' report thereon.

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

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

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the management report, 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 New and enhanced auditor's reports and auditor's communication Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in the applicable in Bulgaria Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.

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

Based on the procedures performed, our opinion is that:

— The information included in the annual activity report for the financial year for which the financial statements have been prepared is consistent with those financial statements.
— The annual activity report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

- The corporate governance statement for the financial year for which the financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8, where applicable, of the Public Offering of Securities Act.
- The non-financial declaration referring to the financial year for which the financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

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

Management is responsible for the preparation of 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 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.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the

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

We are jointly and severally responsible for performing our audit and for our audit opinion as per the requirements of the Independent Financial Audit Act, applicable in Bulgaria. When accepting and performing the joint audit engagement, in relation to which we are reporting, we are also directed by the Guidelines for performing joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and by the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on Other Legal and Regulatory Requirements

Additional reporting in relation to Ordinance No 58/2018 issued by the Financial Supervision Commission

Statement in relation art. 11 of Ordinance No 58/2018 of FSC on the requirements for protection of financial instruments and deposits of clients, for management of products and for granting or receiving remunerations, commissions, or other monetary or non-monetary benefits

Based on the audit procedures performed and the knowledge and understanding of the Bank's activity (Investment intermediary), in the course and context of our audit of the financial statements as a whole, we identified that the designed and implemented organization for safeguarding of customers' assets complies with the requirements of art. 3 – 10 of Ordinance No 58 of the FSC and art. 92-95 of the Markets of financial instruments Act in relation to the activities of the Bank as an investment intermediary.

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.

- KPMG Audit OOD and Baker Tilly Klitou and Partners OOD were appointed as statutory auditors of the financial statements of the Bank for the year ended 31 December 2020 by the general meeting of shareholders held on 20 August 2020 for a period of one year. The audit engagement was accepted by a Joint Audit Engagement Letter dated 14 October 2020.
- The audit of the financial statements of the Bank for the year ended 31 December 2020 represents a third total uninterrupted statutory audit engagement for that entity carried out by KPMG Audit OOD and a third total uninterrupted statutory audit engagement for that entity carried out by Baker Tilly Klitou and Partners OOD.

- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the 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.
- For the period to which our statutory audit refers, KPMG Audit OOD has provided to the Bank, in addition to the audit, the following services which have not been disclosed in the Bank's the annual activity report or financial statements:
  - Audit of the special purpose financial information of Eurobank Bulgaria AD prepared as of and for the year ended 31 December 2020 in accordance with the accounting instructions of Eurobank SA Group to the components subject to consolidation;
  - Review of the special purpose financial information of Eurobank Bulgaria AD prepared as of and for the period ended 30 June 2020 in accordance with the accounting instructions of Eurobank SA Group to the components subject to consolidation;
  - Statutory audit of the financial statements ERB Leasing Bulgaria EAD prepared as of and for the year ended 31 December 2019.
  - Agreed-upon procedures in relation to the Bank's internal control environment in accordance with the requirements of article 76, par. 7, p. 1 of the Law of the credit institutions and article 5 of Ordinance 14 of the Bulgarian National Bank for 2019.
- For the period to which our statutory joint audit refers, Baker Tilly Klitou and Partners OOD has provided to the Bank agreed-upon procedures in relation to the Bank's internal control environment in accordance with the requirements of article 76, par. 7, p. 1 of the Law of the credit institutions and article 5 of Ordinance 14 of the Bulgarian National Bank for 2019.

For KPMG Audit OOD:

Ivan Andonov
Authorised representative

Sevdalina Dimova

Registered auditor, responsible for the audit

Sofia, 31 March 2021

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

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

(All amounts are shown in BGN thousands unless otherwise stated)

ANNUAL ACTIVITY REPORT

The management presents the annual Activity report as of 31 December 2020.

BUSINESS DESCRIPTION

Eurobank Bulgaria AD (the Bank or Postbank) was incorporated and is domiciled in Bulgaria. The Bank is a joint stock company (its shares are not traded publicly an any stock exchange) established in accordance with Bulgarian regulations. The Bank is a licenced credit institution and an investment intermediary providing retail, corporate and investment banking services in Bulgaria. Its Head Office is located in Sofia. The address of its registered office is as follows: 260 Okolovrasten pat Str, 1766 Sofia, Bulgaria.

The activities of the Bank are governed by the applicable legislation regulating the credit institutions and the investment intermediaries. Its principal regulators are Bulgarian National Bank (BNB) and the Financial Supervision Commission (FSC). Since 1 October 2020 Postbank is directly supervised by European Central Bank as part of the close cooperation process between the ECB and the BNB

BUSINESS OVERVIEW

Macroeconomic Environment

The past year was dominated by the COVID-19 pandemic. The crisis swept throughout the world causing an unprecedented economic collapse in the recent years and a global recession. Very few countries managed to avoid the recession, most notably China, but even their economic output was severely dented.

The pandemic had a huge impact on all aspects of life and economy – the rising number of infections forced the governments to impose strict lockdowns which changed profoundly people’s work and lifestyle habits. Individuals adapted fast to the new reality - working and studying from home, shopping more online and organizing virtual events, which left a significant impact on other industries such as sport, entertainment and tourism.

In the present crisis the authorities worldwide responded swiftly by introducing various measures (both fiscal and monetary) aiming to alleviate the economic impact of the pandemic on the companies and the households, to avoid a more severe collapse, to preserve the structure of the economies and to allow for a fast recovery once the crisis is over. This approach was successful in the beginning and as a result the GDP in many of the major economies outperformed expectations in the third quarter of 2020. Meanwhile several vaccines were approved raising hopes for a quick end of the crisis. However surging infections (including from new variants of the virus), renewed lockdowns and logistical problems with the vaccine distribution, in the end of 2020 and in the beginning of 2021, raised new concerns about the projected recovery in 2021.

In 2020 the world economy is expected to contract with 3.5%, before rebounding in the next two years by 5.5% and 4.2% respectively. The pace of recovery will vary across the countries, depending on the availability of vaccines, vaccination plans, additional policy support and dependence on other economies.

Prominent downside risks include a new surge of infections, delay in production of the vaccines and the vaccination plans. In case the supportive policy measures are withdrawn before the recovery is on a firm footing, 2021 prospects might also dampen. The rising debt levels would likely also be a topic of discussion once the crisis is over. On the upside, a faster easing of the pandemic is expected to trigger a rise of consumer confidence and a sharp increase of consumption and investments.

The European Union was amongst the most severely impacted by the pandemic both in terms of economic output and in terms of number of infections and loss of human life. The latest forecasts show that the EU economy contracted by 6.2% in 2020, while in some countries whose economies heavily depend on tourism such as Greece and Spain the drop is expected to be even double-digit. The tourism industry is still in shock and the prospects for the most important summer season are unclear, depending

(All amounts are shown in BGN thousands unless otherwise stated)

BUSINESS OVERVIEW (continued)

Macroeconomic Environment (continued)

on the pandemic evolution and the speed of execution of vaccination plans. Renewed lockdowns in many European countries will delay the recovery until the second half of 2021 when it will be supported by private consumption and reinvigorated global trade. The forecast for the next two years is the economy of the EU to grow by 3.7% in 2021 and 3.9% in 2022, while in the Eurozone growth will be 3.8% in both years. On the positive side, the Brexit agreement between EU and UK eliminated a major risk and reduces the cost of UK leaving the Single Market and Customs Union.

The monetary policy during 2020 was supportive, with the central banks extending or announcing new asset purchase programs, new lending facilities and interest rate cuts. ECB in particular extended its net asset purchase program to March 2022 and increased it by €500bn to €1 850bn. It also prolonged the duration of its long-term refinancing operations and announced new similar programs, especially with a view on easing the pandemic effects. ECB also extended all bilateral and temporary swap and repo lines set up with EU central banks outside the Eurozone.

Bulgaria’s economy was one of the less affected by the pandemic among the EU members, probably due to the fact that the lockdown measures in the country were one of the lightest in Europe. On the other hand, Bulgaria is a tourist destination and the external sector constitutes a big share of the GDP, so any slowdown in the economies of the main trading partners create a spillover effect in the local economy. Compared with the countries in Western Europe, the first wave of local infections in the spring of 2020 was contained and relatively mild. When the restrictions were loosened in May, this gave a boost of the consumption in the second and the third quarter of the year. However, the next much stronger wave of infections in Q4 caused a second lockdown and another drop in the economic activity.

The GDP declined by 4.2% in 2020 according to the preliminary data by the National Statistical Institute. The consumption grew by 1.8% YoY, while all other components of GDP declined. Investments were -11% YoY, while the exports and the imports were -11.3% and -6.6% respectively.

In nominal terms Bulgaria’s exports declined by 6.9% in 2020 to 54.5 billion leva. The decrease in the imports was even higher – 9.6% down YoY to 59.7 billion leva. As a result, the trade deficit shrank by more than 30% to 5.2 billion leva. Bulgaria’s export to the EU countries held relatively well – the decrease of the trade was just 4.4% YoY, while the exports to the countries outside the EU dropped by 11.3% on annual basis. With regard to the imports, the difference in the decrease of imports from EU members and from third countries was much smaller, 9.2% YoY and 10.2% YoY respectively. There was some good news in the last month of the year, when the trade with the EU countries rose, compared with the last month of 2019 – exports jumped by 10.3%, while the import rose by 0.9% YoY.

The biggest factor for the drop of the trade with countries outside the EU was the lower prices of the oil and gas. For the first 11 months of 2020 Bulgaria’s import of mineral fuels and oils shrank by 44% to 4.7 billion leva. Since most of these are imported from Russia, the country lost one place in the ranking and is now the third largest trading partner, outside the EU countries, after Turkey and China.

The foreign direct investments in 2020 were just €560m (0.9% of GDP) – the lowest since 2014 and just half of those in the previous year. The data shows an outflow of close to €1bn equity investments, a good part of which is due to the finalization of the sale of one of the biggest Bulgarian telecommunication companies in the summer of 2020. The outflow was almost fully compensated by the inflow of foreign debt (€925m), while the reinvested profit was €620m – almost a quarter below the level a year earlier. The latter is an informal indicator of the effect of the crisis on the financial results of the companies, since the biggest Bulgarian banks, usually significant dividend payers, did not distribute any dividends in 2020. The biggest net inflow of investments came from Austria (€303m), Germany (€295m) and Switzerland (€207m).

Bulgaria finished the year on the brink of deflation with the consumer price index (CPI) growing by just 0.1% YoY as of December 2020. The last time the CPI was at this low level was in December 2016. Although most of the price groups showed increase in 2020, they were counterbalanced by the significant decrease of the prices of transport and clothing (-9.4% and -4.9% respectively).

(All amounts are shown in BGN thousands unless otherwise stated)

BUSINESS OVERVIEW (continued)

Macroeconomic Environment (continued)

Partially, this can be attributed to the lower prices of natural gas, negotiated between Gazprom and Bulgargaz, but another major factor is the pandemic. Oil prices also decreased significantly in 2020 which affected the prices of the fuels, while the lockdown and the closed shopping centers shrank the demand for new cars and clothing. The food prices also calmed down and their increase decelerated from a peak of 8% YoY in January 2020 to the more modest level of 1.9% YoY in December.

The unemployment rate in the country rose in 2020 by 1.1 percentage points to 5.3%, according to the data by the National Statistical Institute. The number of unemployed was 171 thousands – an increase of 36 thousand, compared to the end of 2019. The unemployment rate peaked to 6% in the second quarter of the year, but went back to 4.9% in the third due to the increased demand for seasonal workers. The employment ratio in the age group 15-64 years declined to 68.8%, a 1.2 pp decrease vs. the previous year (94 thousand people), however, a major part of the decrease (ca. 60 thousand) is attributed to the worsening demographic structure of the population, rather than from discouraged workers. The government support programs (60/40 and 80/20) also helped the labor market, supporting up to 250 thousand working places throughout the year.

The number of long-term unemployed (unemployed for more than 2 years) remains almost unchanged at around 55 thousand people. Also without change is the number of unemployed people with basic or no education, who make up a third of all. The northwestern part of the country still has the highest unemployment rate of 13% (10.9% in 2019) while in the southwest (which includes Sofia) the unemployment rate is 3.8%, however, it is no longer the one with the lowest unemployment rate. The first place now belongs to the southcentral region (around Plovdiv) where the unemployment rate was just 3.3% at the end of 2020.

Despite the weaker labor market the average salaries rose by 9% in 2020 to 1,468 leva. In several sectors the salaries rose by double digits most notably the state employees, the medical staff and the teachers (first two with 20% annual increase and 17% for the third group). On the other extreme were the salaries in the entertainment and the hospitality sectors where the average salaries were 20% lower than in December 2019. In both sectors the data shows a sharp drop in the last month of 2020 and is related to the second lockdown and the support programs, rather than to structural reason. The highest paid sector remains the IT and Communications with an average salary of 3,502 leva (8% annual increase), while the production of energy and gas replaced the financial sector as the second best paid with an average salary of 2,431 (9% YoY).

The consolidated budget finished on a deficit of 3.5 billion leva (3% of GDP), better than the Government projections of 5.25 bn leva (4.4% of the GDP). Despite the crisis, the tax and social security revenues were 1.6% (570 million leva) higher than in 2019. A large part of the additional revenues came from the personal income taxes and social security contributions because of higher salaries and minimum social security thresholds. In 2020 the Government spent 5 billion leva more on salaries, procurement, subsidies and pensions, most of which was presented as anti-crisis measures such as the government support programs, additional payment to the pensioners (50 leva per month), increases of the pensions, medical supplies and vaccines purchases and salary increases of the government employees. To some extend this increase was counterbalanced by the 2.5 billion leva (33%) drop in capital expenditures, but it should be noted that in 2019 the Government spent around 2.1 billion leva for acquiring new fighter planes for the air force. Given that many of the 2020 expenses do not have a one-off nature, balancing the budget in the next years will become more difficult and will require taking on additional debt.

In order to finance the budget deficit, the Government issued new debt for €2.5 billion in September 2020 (split equally between 10 and 30 year notes) with a record low yields. In total, the government debt increased by 5.4 billion leva to 28.97 billion leva and as a share of GDP - from 19.7% to 24.3% at the end of 2020.

(All amounts are shown in BGN thousands unless otherwise stated)

BUSINESS OVERVIEW (continued)

Macroeconomic Environment (continued)

In November 2020 the rating agency Moody's raised the credit rating of the country by one notch to Baa1 both in local and foreign currency with a stable outlook. The other two major agencies – S&P and FITCH confirmed the rating of the country (to BBB both in local and foreign currency) with a stable perspective.

In 2021 the Bulgarian economy is expected to grow by 4.5% with the assumption that the lockdown measures will be lifted at the end of March 2021, vaccination plans would progress swiftly in the next months, the tourism would recover in the most important summer season and consumption and exports would pick up in the second half of the year. In 2022 and beyond the economy is planned to return to its pre-crisis trajectory and gradually converge to its long-term potential GDP growth rate. Any of the above assumption not holding true poses a downside risk to the forecast and will impact the economic recovery.

Banking system

The pandemic influenced the results of the Bulgarian banks, but for the time being the banking system has weathered the crisis rather well. The banks have preserved their core sources of income, but had to set aside additional provisions for impairment. The net profit halved to 815 million leva and the return on equity dropped from 11.9% in 2019 to 5.5% in 2020, but the capital and liquidity buffers have improved even further and the system is well prepared for potential worsening of the macroeconomic framework.

The uncertainty in the first months of the pandemic and the slowdown in the economic activity caused a dent in the demand for loans. The companies scaled back their plans for expansion, the households were hesitant to take new consumer loans and only the real estate market remained relatively unscathed. After the initial shock, the situation normalized in the second half of the year, but did not fully return to the pre-crisis levels. Total loans increased by 4.8% to 69.5 billion leva in 2020. In nominal terms the net increase was 3.2 billion leva which is around 60% of the level in 2019. The loans to companies rose by 1.5 billion leva (3.6% YoY) to 43.6 billion leva – less than half the new loans granted a year ago. The net delta of the consumer loans was just 455 million leva (3.7% annual increase) – around a fifth of 2019's delta. The only exception was the mortgage lending segment – it grew by 1.27 billion leva (10.1% YoY) or just 20% lower than in the previous year.

Average interest rates for newly granted leva denominated loans remained rather stable in the companies' segment – from 2.86% at the end of 2019 to 2.8% a year later. Consumer loans were falling in the first half of the year – from 9% to 7.65% in June, but reversed the trend in the second half and finished again at 9% in December. The mortgage segment rates fell by another 20 bps to 2.8% within the year.

Having fewer opportunities to spend and invest, the households and the companies were left with more money in their accounts. The deposits reached a new record high of 100.7 billion leva as of yearend, by increasing 8.8 billion leva (9.6% YoY) and breaking the 100-billion leva mark. The nominal growth was 20% higher than in the previous year. Deposits of companies and households increased by 3.8 (11.1% YoY) and 5.0 billion leva (8.7% YoY) respectively, both of which are by far the highest levels in history. The loans-to-deposits ratio fell by more than 3 pp. to 69% and the liquidity buffer rose by 20% to 36 billion leva with the LCR being just below 280%.

The excess liquidity puts pressure on the banks' margins due to the limited options for investment. The banks paid almost 70 million leva to BNB and other credit institutions in the form of negative interest rates during the year, 16.4 million more than in 2019, while in the same time the banks realized YoY saving from interest expense on client deposits of 23.5 million leva. The average interest rate on deposits as of 2020 end is already just 7 bps – 2 bps lower than a year ago.

(All amounts are shown in BGN thousands unless otherwise stated)

BUSINESS OVERVIEW (continued)

Banking system (continued)

The banks have managed to preserve largely their core interest income. Interest received on loans to clients declined marginally by 1.2% (31 million) to 2.61 billion leva. However, the income on placements with other banks shrank by almost two-thirds (68 million leva) to just 36 million leva at the end of 2020, due to both the negative interest rates and the regulatory restrictions on banks' foreign exposures. The crisis took its toll on the net fee and commission income which decreased by 6% (85 million leva) to 1.04 billion leva. The banks also suffered from the volatility of the financial markets – their income from financial instruments not measured at fair value dropped by almost 170 million leva to 164 million leva. Costs were kept under control – administrative expense excluding depreciation and other provisions increased by less than 1% (13 million leva) to 1.68 billion leva. While the other administrative expenses decreased, the pressure on the labor market forced the banks to increase their personnel costs by 2.6% (23 million leva) to 910 million leva. There were also other one-off factors which account for around a fifth of the drop in the net profit of the Bulgarian banks between 2019 and 2020. In 2019 Eurobank Bulgaria booked 78.7 million leva bargain gain from the merger with Piraeus Bank Bulgaria and in 2020 one of the banks booked 107 million leva extraordinary provision on guarantees. However, the biggest reason for the lower net profit of the banks in 2020 was the impairment charge which more than doubled from 431 million to 876 million leva. Although the volume of the nonperforming exposures (NPE) fell in 2020, the banks acted in accordance with IFRS 9 requirements and regulatory prescriptions, incorporating the forward-looking information into their models and building up buffers for the future.

The credit quality of the portfolio improved in 2020 - the NPE ratio fell by 1 percentage point to 8.2%, supported by the Private moratoria for debt payment deferral adopted by the Bulgarian banks in April 2020 and the proactive NPE management strategy of the banks. Throughout the year the NPE volume decreased by close to 410 million leva to 5.7 billion leva. Loans overdue more than 180 days fell by 460 million leva to a little over 3 billion, but they still account for more than 50% of the entire NPE stock. The NPE coverage ratio reached 62.6%, the higher year-end level in the last 6 years, since data is being published. As of the end of the year the active loans under the private moratoria are with total outstanding balance of close to 8.1 billion leva (11.6% of total loans).

One of the measures, announced by BNB in March 2020, was to impose a ban on dividend distribution. The entire net profit for 2019 (1.67 billion leva) was retained and added to the own funds of the banks. This, together with the adoption of Regulation 2020/873 in June 2020 in response to COVID pandemic, significantly strengthened the capital buffers. The capital adequacy ratio rose from 20.2% in December 2019 to 22.7% in December 2020 (CET 1 ratio - 21.7%).

Major Changes in The Regulatory Environment

In March 2020 BNB implemented a package of measures in relation to the COVID-19 pandemic. The measures included, among others ban on dividend distribution in 2020, cancellation of the increases of the countercyclical capital buffer, scheduled for 2020 and 2021 (keeping it at a level of 0.5%), and reducing the commercial banks' foreign exposures.

In April 2020 the Governing Council of BNB approved the draft Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions in relation of the state of emergency enforced by the Bulgarian Parliament in March 2020. After its approval, the document constituted a private moratorium within the meaning of the Guidelines of the European Banking Authority on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02). The approved private moratorium provided opportunities for changes in the principal and/or interest payment schedule of liabilities, without changing any key parameters of the loan agreement, e.g. the already agreed interest. Deadlines for application were extended twice – in July 2020 and in December 2020. The period for receiving loan liability deferral requests was extended until 23 March 2021 and the deadline for deferring loan liabilities of the banks' customers – until 31 December 2021, but not longer than 9 months.

(All amounts are shown in BGN thousands unless otherwise stated)

BUSINESS OVERVIEW (continued)

Major Changes in The Regulatory Environment (continued)

In June 2020 new capital adequacy regulation (Regulation (EU) 2020/873) entered into force in response to COVID-19, introducing a number of relief mechanisms for the banks such as transitional treatments for public debt issues in the currency of another Member State, IFRS9 first time adoption impact, exemption of certain software assets from capital deductions, lower capital requirements for non-defaulted SME exposures and others.

In July 2020 Bulgaria was formally accepted in the ERM II, the “waiting room” for the Eurozone. The Bulgarian government reconfirmed its decision to keep the fixed exchange rate until the adoption of the euro. The country will spend at least two years in the ERM II, while in the meantime it will continue implementing the specific policy measures as described in the action plan from 2018. As part of the agreement for being accepted in the ERM II on 1 October 2020 Bulgaria also joined the Single Supervisory Mechanism and the Single Resolution Mechanism and established a close cooperation between the Bulgarian National Bank and the European Central Bank (ECB). As of that date ECB became the supervision authority of five Bulgarian banks - UniCredit Bulbank AD, DSK Bank AD, United Bulgarian Bank AD, Eurobank Bulgaria AD, and Raiffeisenbank Bulgaria EAD. ECB will also be responsible for the oversight of the less significant institutions, which remained subject to direct supervision by the BNB, and for the common procedures for all supervised entities.

Eurobank Bulgaria performance and key indicators

In 2020 Eurobank Bulgaria was well positioned to recognize the benefits from the successful acquisition and integration of Piraeus Bank Bulgaria back in 2019 and to deliver outstanding financial results for another year. Net of the one off effects from the acquisition of Piraeus Bank Bulgaria (bargain gain), total operating income rose by almost 8% to 470 million leva, while the pre-provision profit was up by 17% to 254 million leva. In the last year, Eurobank Bulgaria offered attractive lending products to its customers and increased its gross loans by 8.6% (642 million leva) to 8.06 billion leva, improving lending market share by 40 bps to 11.6%. The growth was balanced between Corporate and Retail segments – corporate loans rose by 8.5% to 3.83 billion leva, while the retail loans rose by 8.8% to 4.23 billion leva. Consumer loans grew with the highest pace - 20% YoY to 1.24 billion leva, while in the mortgage lending segment the Bank was able to capitalize on the strong market demand and increased its volume by 8.7% to 2.28 billion leva. Small Business Banking (SBB) loans shrank by 5.7% (43 million leva) to 717 million leva, there the drop was entirely driven by the write-offs performed during the year. The small businesses were significantly hit by the pandemic, the lockdowns and the recession and were in most need of support. As a response, Eurobank Bulgaria took part in all programs for supporting the SMEs, signing agreements with the Bulgarian Development Bank, the Fund manager of financial instruments in Bulgaria and the EIF (JEREMIE and COSME programs), although their true potential is likely to be realized in 2021. The year was a record one for the Banking industry in terms of deposit gathering and Eurobank Bulgaria received its fair share . Client deposits rose by 8.4% to 10.23 billion leva, corresponding to a market share of 10.2%. In nominal terms the annual delta was close to 800 million leva, more than 100 million leva above the nominal growth of the net loans, allowing Eurobank Bulgaria to keep its liquidity buffers and to maintain a comfortable net-loans-to-deposits ratio of 76%. The Bank continues to rely largely on retail deposits which constitute 75% of all deposits, growing by 10% in the last year to 7.67 billion leva. Deposit from corporate customers on their hand rose by 4.6% to 2.56 billion leva. Throughout the year deposits from banks and other borrowed funds decreased from 54 million leva to 37 million leva and were less than half percent of all attracted funds.

Eurobank Bulgaria’s net interest income was up by 7.5% YoY to 362 million leva. The interest income grew by 7.8% on an annual basis to 375 million, while the interest expenses rose by 1.8 million (16% YoY) to 12.7 million leva. Costs have risen almost entirely due to the charges on excess liquidity held in BNB, higher cost for deposits from banks and other borrowed fund which now make up a quarter of all interest costs. Despite the 10% increase in client deposits volumes, the Bank managed to keep the respective interest expenses flat.

(All amounts are shown in BGN thousands unless otherwise stated)

BUSINESS OVERVIEW (continued)

Eurobank Bulgaria performance and key indicators (continued)

Net fees and commissions income increased by 10% YoY to 103.4 million leva. In almost all lines the fees and commission income rose with a double digit rate on an annual basis as a result of the larger client base after the merger with Piraeus Bank Bulgaria, tariff changes and increased number of transactions. The only exception are the money transfers fees which have declined by 12%. At the end of 2019, the fees for money transfers within European Economic Area in foreign currency were equalized to those in local currency. This combined with the effects from pandemic such as the slowdown in client business transaction turnover and the active promotion of transactions through the non-physical digital banking channels led to lower fee income for the Bank.

Other operating expenses improved by 5% YoY to 188.5 million leva, but in 2019 there was a one-off cost of 20.5 million leva related to the integration of Piraeus Bank Bulgaria. Some of the business as usual cost items have increased YoY as a result of the enlarged post-acquisition headcount and network, the continuing branch transformation project and well as the investments which the Bank makes for implementing its digitalization program. The cost-to-income ratio stood at the enviable 40.1% as of the end of 2020, one of the lowest among the peers.

The Bank set aside 83 million leva in 2020 as expected credit loss charges addressing key areas of concern such as uncertainty in macro forecast, the impact of moratoria deals on the quality of Bank's books and the implicit higher credit risk in exposures to industries most severely impacted by the pandemic, as well as building up buffers for eventual future losses related to the pandemic. The cost of risk remained at 1.1% which is in line with the average for the market. The NPE volume in the meantime decreased by 90 million leva to 535 million leva at the end of 2020 and the NPE ratio improved by 180 bps to 6.7%. The inflow of new NPEs was relatively low owning to the strict monitoring and collection measures, as well as the use of the deferral mechanisms under the moratorium. Although throughout the year loans with total outstanding balance of close to 124 million leva were written off, the coverage ratio is stable at 49%.

Eurobank Bulgaria finished the year with a net profit of 152.7 million leva, the third highest in the system. Return on equity and return on assets were also impressive given the challenging year – 9.9% and 1.4% respectively. The net profit for the year will be retained complying with BNB's decision from January 2021 on non-distribution of dividends, further strengthening the capital adequacy of the Bank. The Capital Adequacy (CAD) ratio as of the end of 2020 was 20.91%, more than 4 pp higher than a year before and is projected to remain above 20% in 2021.

Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as of 31 December 2020.

(All amounts are shown in BGN thousands unless otherwise stated)

BUSINESS OVERVIEW (continued)

RISK MANAGEMENT

The Bank considers risk taking as an integral part of its activities for achieving its strategic and business objectives. Risk taking is core to the financial business, and the operational risks are inevitable consequences. Therefore, timely and effective risk management is a key priority of the Bank's management.

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of a combination of risks. The risk management policies reflect the Bank's objectives. It is therefore not intended that large risk positions are maintained to increase short-term profitability. The Bank's intent is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

A consistent and effective framework for risk identification, assessment, monitoring and control has been fully documented by the Bank's Risk Management unit, forming the basis for consistent definition of strategies, policies and procedures across all risk taking units within the Bank. The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Supervisory Board of the Bank (SB) has delegated to the Risk Committee the role of approving all strategic risk management decisions. The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks. Risk Division, which performs the Risk Function, supports and complements the activities of the Risk Committee. In addition, Internal Audit is responsible for the independent review of risk management and the control environment.

The Bank's risk management function is capturing all material risk sources across all portfolios and operations. Management is responsible for developing and maintaining processes and systems to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, accurate disclosures both internally and externally, and compliance with internal and external rules.

The Bank's risk measurement, monitoring, and control functions have clearly defined responsibilities that are sufficiently independent from position/risk taking functions. The Bank's internal control systems are designed to provide adequate segregation of duties, in order to prevent conflicts of interest with respect to the distinct functions of undertaking, approving, monitoring and controlling risks.

The Risk Management Unit has an active participation in the development and pricing of new products, the design of new procedures, in issues relating to business decision-making and to adopting the proper risk management and control mechanisms. The Bank ensures that proper identification of risks inherent in new products and activities is undertaken and that these are subject to adequate procedures and controls before being introduced or undertaken.

The Bank manages with higher priority the following major types of banking risks arising from its activities – credit risk, market risk (including interest rate risk in the banking book), liquidity risk and operational risk.

Credit Risk

Credit risk is the risk related to the inability or unwillingness of a customer or a counterparty to fully meet the commitments made to the Bank in relation to lending, trading, settlement, hedging or other transactions within the agreed time period or schedule.

Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments, and counterparty risk in over-the-counter derivative transactions.

(All amounts are shown in BGN thousands unless otherwise stated)

RISK MANAGEMENT (continued)

Credit risk (continued)

The Bank uses rating systems and slotting methodology to assess the creditworthiness of its corporate borrowers. The rating systems aggregate quantitative and qualitative information on individual obligors to perform the assessment of their creditworthiness and determine the credit rating for the obligor. The Bank assesses the credit quality of the wholesale loans on a case-by-case basis using the borrower's credit rating and based on a profound analysis of a set of qualitative and quantitative factors. The classification of retail clients is based on the full delinquency analysis by groups. The grouping is based on the common characteristics of the respective products, the similar risks they bear and the type of collateral that secures them.

Exposures to credit risk are managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate. The exposure to any borrower is restricted by limits covering on- and/or off- balance sheet. Off-balance sheet facilities to customers include foreign exchange and interest rate derivatives, letters of credit, letters of guarantee and other financial instruments.

In compliance with its risk strategy, the Bank targets to maintain a low level of credit risk concentration by industries and at a customer level.

The Bank makes assessment of the risk exposure, evolving from the loan portfolio by classifying and provisioning loans in compliance with the requirements of the IFRS framework and Impairment Policy applied on a monthly basis. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans.

Market risk

The Bank is exposed to market risk, which is the risk of potential financial loss due to adverse changes in market variables such as interest rates, equity prices or foreign exchange rates. The fair value or future cash flows of a financial instrument may fluctuate because of changes in market variables and thus may influence the Bank's profitability.

The corporate governance with respect to market risk control and supervision is defined in the Bank's Market and Counterparty Risk Policy. It is further supported by procedures which set out the detailed standards and requirements necessary to implement the Policy. The Policy and procedures apply to the control of market risks, arising on all of the Bank's assets, liabilities and off-balance sheet positions, therefore covering both Treasury and non-Treasury activities that run market risk.

The market risk control and supervision framework set by the Bank aims to protect the Bank against unforeseen market losses and contribute to earnings stability through the independent identification, assessment and understanding of the market risks inherent in the business as well as to develop objective, transparent and consistent market risk information as a basis for sound decision making.

The Market Risk Control function helps to align the Bank's organizational structure and management processes with best international banking practice and set standards for controlling market risks and to link business strategy and operations with the objectives for risk control and supervision.

The Bank's market risk appetite is expressed in terms of nominal limits set on the exposures to market risks as well as through characteristics such as different types of allowed markets, products, countries, counterparties and currencies. Currently market risk measurement is done using notional exposure data and notional level limits, supported by regular stress testing. The Bank is not using VaR-based limits.

Upon senior management decision in the future the Bank may introduce additional value-at-risk analysis.

The market risk measurement system measures risk arising from exposure to the following specific market risk factors:

(All amounts are shown in BGN thousands unless otherwise stated)

RISK MANAGEMENT (continued)

Market risk (continued)

a) Interest Rate Risk

Banking is related to maintenance of positions sensitive to the fluctuations in the prevailing levels of market interest rates, which influences the Bank's financial position and cash flow dynamics. Interest rate risk is the probability for potential change of the net interest margin which may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise. Interest rate risk may include re-pricing risk, yield curve risk, basis risk, spread risk, option risk, volatility risk. The Management reviews the interest rate gaps, the interest rate mismatch and the necessary re-pricing on a monthly basis.

b) Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The major part of the Bank's FX position is against EUR, while the BGN/EUR currency rate remains pegged at 1.95583 as part of the Currency Board Arrangements. The management sets limits on the open positions in individual currencies as well as on the aggregate open positions for both overnight and intra-day positions, and these limits are monitored on a daily basis.

c) Equity price risk

Equity price risk is the risk of decrease of the fair values as a result of changes in the levels of equity indices and the value of individual stocks. It may include outright risk, volatility risk, spread risk and dividend risk.

Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank has a limited appetite for liquidity risk and accepts the potentially increased costs of maintaining sufficient liquidity buffers to ensure a sound liquidity position.

The Bank maintains appropriate liquidity policies which have to ensure prudent liquidity management practices are in place. Within its liquidity risk management framework, the Bank observes various liquidity ratios and indicators. The main aspects to be considered in liquidity control are liquidity ratios, the availability of sufficient and high quality liquid assets and buffers, maturity mismatch profile, diversity and stability of the deposit base, loans to deposits ratio, stress test results and other.

The Bank also makes assessment of its liquidity position under stress scenarios, developed to analyse the adequacy of the Bank's liquidity to withstand crisis situations (e.g. significant deposit outflows, tightening of credit lines, etc.).

The Management Board (MB) of the Bank assigns the Assets and Liabilities Committee (ALCO) as the primary responsible body to advise on the strategic management of assets and liabilities with aim to manage the interest rate and liquidity risks of the Bank. On a strategic level ALCO manages the Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations.

Within its authority is to take all the necessary decisions regarding the interest rate policy, the liquidity and assets and liabilities management and to set the target parameters of potential external funding. The operational management of the Bank's liquidity and the execution of ALCO decisions regarding liquidity are assigned to the Head of Capital Markets Division.

Market Risk Department is responsible to regularly produce and distribute the internally adopted liquidity gap reports with embedded liquidity ratios and is the unit that exercises an independent liquidity risk control function, escalating any breaches of limits to the respective management bodies.

(All amounts are shown in BGN thousands unless otherwise stated)

IMPORTANT EVENTS DURING THE FINANCIAL YEAR

Postbank, legally named Eurobank Bulgaria AD, is the fourth largest bank in Bulgaria with a broad branch network throughout the country and a significant client base of citizens, companies and institutions. It has been a leading factor in innovation and trends in the banking sector in the country in the recent years and has been awarded many times for its innovations. The financial institution holds a strategic place in retail and corporate banking in Bulgaria. The Bank is one of the leaders in the market of credit and debit cards, mortgage and consumer lending, savings products, as well as in terms of products for corporate clients - from small companies to large international companies with presence in the country. The financial institution has one of the most well-developed branch networks and modern alternative banking channels, paying special attention to the quality of customer service. And in 2021 the Bank will celebrate its 30-year presence among the leaders in the banking market in Bulgaria.

2020 is the year of the overall transition to a long-term innovative way of work at Postbank. The financial institution's strategy is to rely on an impeccable customer service, modern products and services, implementation of optimal solutions for Bank’s processes and convenient ways for internal and external communication.

Postbank has a long-term credit rating BBB- with a positive outlook, confirmed by the Bulgarian Credit Rating Agency (BCRA) in June 2020.

In November 2020, Ms. Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board of Postbank, was honoured with the special Banker of the Year 2020 Award for the second year in a row and for the fifth time in her career. The award came as an appreciation for her leadership skills and for the dynamic development of the Bank.

In October 2020, Postbank received two awards – Bank of the Year and Dynamics of Development, which were presented at the 29th Annual Bank Awards, organized by the Bank of the Year Association.

Earlier in 2020, Mr. Dimitar Shoumarov, Executive Director and Chief Financial Officer and Member of the Management Board of Postbank, won the prestigious Burov Award 2019 for Bank Management.

In July 2020, Postbank received the Deal of the Year award in the 6th Annual Company of the Year Awards, organized by the Bulgaria Business Review group. They distinguish the best companies in different industries by publicizing their achievements and focusing public attention on their innovative and successful management models. The award comes shortly after Postbank received the Business Deal of the Year prize from the 6th b2b Media Annual Awards 2020 contest. The Bank also received the "Innovative Project" award for the complete redesign of its branch network, in line with the main drive to create an excellent customer experience. In this way, the Bank boldly stands on the threshold of its 30th anniversary as one of the leaders in the sector, ready to seek the best solutions for its customers and partners.

As a leading employer, which evaluates its success through the satisfaction of its employees, Postbank has always strived to develop the skills of its team members and to provide an environment for unlocking their potential. Due to its active policy in this direction, in early February 2020 Postbank received two golden awards, from the annual Employer branding awards organized by b2b Media. The focus of the Bank in this direction are activities for optimization of the working environment, continuing professional development and training, involvement of employees in corporate social responsibility projects with high added value for the society. Postbank was among the most sought-after employers at the first-of-its-kind Virtual National Career Days.

The Bank is the first company on the Bulgarian market to add the Digital Office mobile app for fast and easy internal communication with its employees to its portfolio of digital solutions. In this way, it has solidified its position as a preferred employer on the Bulgarian market. The Digital Office app saves time and resources by providing a modern solution for complete management and digitalization of internal processes through online communication within the team.

(All amounts are shown in BGN thousands unless otherwise stated)

IMPORTANT EVENTS DURING THE FINANCIAL YEAR (continued)

In August 2020, the Bank introduced 6 robots in the operation of Loan Administration, which successfully finalized a pilot project for the automation of 20 different work processes with the help of the RPA (Robotic Process Automation) technology. With the introduction of this innovation, the Bank optimized the operation of one of the busiest units and relieved the daily load of its employees by transferring a huge amount of their work to the robots.

Postbank has strengthened its position as a socially responsible company by joining the institutions, which have signed the Principles for Responsible Banking (PRB) within the framework of the United Nations Environment Programme Finance Initiative (UNEP FI). This significant step makes Postbank the only financial institution in Bulgaria that has chosen to be guided in all aspects of its operations by the single framework for sustainable development in the banking sector, developed through the innovative partnership between worldwide leading banking institutions and the Financial Initiative of the Programme.

By putting the interests of its customers first, Postbank offered deferral of liabilities of clients who are experiencing or expecting difficulties in servicing their loans in relation to the COVID-19 pandemic and the restrictions introduced by the Act on the Measures and Actions during the State of Emergency announced by a decision of the National Assembly of March 13, 2020, as well as the consequences of these restrictions. Driven by its desire to provide the best financial solutions to its customers, Postbank implemented a number of measures and proposals aimed at its affected borrowers, both individuals and legal entities.

The financial institution is an active partner in the programs of the Bulgarian Development Bank (BDB), which support citizens and micro, small and medium enterprises affected by the emergency situation and the epidemic of COVID-19. Postbank also signed a guarantee agreement with the Fund Manager of Financial Instruments in Bulgaria (Fund of Funds), as well as with the European Investment Fund for participation in the JEREMIE and COSME guarantee programs.

As a key partner of the Bulgarian business, Postbank has joined the “Rediscover Bulgaria” initiative. The online platform offers attractive opportunities for accommodation and reservations in restaurants on the Black Sea coast and the Bulgarian mountains, which comply with safety standards and use primarily Bulgarian products for their meals.

Postbank has taken another step towards expanding its innovative services by launching digital express banking areas that offer more speed and convenience for customers. The new service is available in 32 branches, in 15 cities in Bulgaria, with specialized devices with modern design, intuitive navigation and numerous functions. The new digital express banking areas allow customers to perform almost all operations available at the bank's office and to bank conveniently during non-working hours.

Since January 2021, more than 120 ATMs and self-service devices in Postbank's digital express banking areas across the country provide new contactless functionality that allows transactions by bringing the card close to the contactless reader of the device.

Postbank was awarded two international prizes at the prestigious World Finance Digital Banking Awards 2020 competition organized by the authoritative World Finance Magazine. The awards are in the categories for Best Digital Banking Apps, Bulgaria and Best Mobile Banking Apps, Bulgaria for consumers in Bulgaria. The contest distinguishes the best banks in providing digital services to consumers and the introduction of innovative management models.

Through its partnership with Eurobank Private Bank Luxembourg and its 100% specialized and strictly personalized private banking services, Postbank continued to develop its modern Private Banking Centre. The Bank's clients can benefit from a range of investment services in trust management, asset management and business consulting.

In 2020, Postbank continued to develop an innovative mobile service, which saves time and money for consumers and employers. This is a special corner, organized in business centres and malls upon a customer pre-order, which provides an easy opportunity for free expert consultation on various financial

(All amounts are shown in BGN thousands unless otherwise stated)

IMPORTANT EVENTS DURING THE FINANCIAL YEAR (continued)

products and current offers. One of the strongest advantages of the service, in addition to time-saving and the convenience of having the Bank "visit" your office, is the opportunity for the clients to get individual flexible solutions for their needs. After the on-site consultation, they can go through the product application process together with the expert.

In 2020, Postbank continued to offer its modern and convenient Mobile Bankers service. The service is a free professional consultation, with experts providing solutions tailored to the client's specific needs and assisting in filling out the necessary documents and submitting them at a bank branch. Mobile bankers answer all questions related to consumer and mortgage loans, overdrafts and credit cards, at a convenient and pre-arranged time and place, according to the client's preferences.

In the interest of its customers, the Bank continued its strategic partnership with ClaimCompass, a Bulgarian technology company that professionally protects passengers' rights in the event of problems with their flights. The Bank credit cardholders may benefit the innovative service, which is the only one offered on the market.

Postbank has continued its partnership with Booking.com, the world's leading provider of accommodation, with all Postbank Mastercard and Visa credit card holders receiving an additional 3 percent discount on each booking through the Bank's Booking.com website in Bulgaria or abroad.

In 2020, the financial institution, which has traditionally been a leading partner of the business in the country, supported the unique Dare to Scale growth program - the first of its kind in Bulgaria aimed at businesses with a potential for extensive growth. Due to the great interest this year, 12 native companies were selected in the project of the Bulgarian office of the global network Endeavor. Selected entrepreneurs underwent training and interactive sessions led by successful practitioners and leaders from the Endeavor network, and experts from Postbank.

The Dare to Scale growth program will continue in the upcoming years to encourage the growth of even more new local businesses. This was announced during the closing event (Demo Day), where all companies from the second season presented their projects and ideas to established business leaders in the country.

By participating in the Dare to Scale program, Postbank is actively contributing to the development of both promising scale-up companies and the business environment in our country. This is another expression of its strong intent to foster bold ideas, support innovation and competitiveness for businesses and the economy. For the second time, Endeavor's Dare to Scale program, with Postbank being a main partner, became the winner of the CESAwards Bulgaria 2020 prestigious Best Accelerator Program category. The program was also distinguished in the Annual Golden Heart Awards for charity and corporate social responsibility, organized by Business Lady Magazine and Bulgaria Business Review.

In 2020, the financial institution was a major partner of a series of online discussions, part of the Imoti.net Annual Awards project, which promotes good practices in the sector. This is the only forum where the achievements, integrity and reputation of companies and experts in the real estate sector are evaluated. At the online meetings with representatives of the real estate business, the Bank experts discussed the market trends, presented their analysis of the market, the profile of consumers and the current terms for mortgage loans offered by Postbank.

The fifth edition of the "Entrepreneurs of the Future" conference took place with the Bank's support. The popular forum, which was held in an online format in 2020, answered a number of key questions entrepreneurs face today - what are the sectors with potential for starting a business right now, what changes companies need to make to be ready for the new reality after the coronavirus, and what are the tools for access to initial and additional capital to finance a start-up business project.

For the sixth consecutive year, Postbank was the main partner of the competition for successful small business of the year - The Big Small, organized by 24 Chasa Daily, where small and innovative Bulgarian companies present ideas, which they have successfully developed into a product or service on the market.

(All amounts are shown in BGN thousands unless otherwise stated)

NEW PRODUCTS

Postbank introduced more innovative products and services in 2020, focusing on offering convenience and added value benefits to customers. As a result of the COVID-19 pandemic, companies had to be faster in implementing solutions for customer convenience in order to continue to be successful.

Postbank has once again solidified its position as an innovation leader in the sector, successfully implementing the most modern and effective solution for managing communication with its customers. The introduction of the Salesforce platform is a strategic step that will allow the Bank to optimize its relationships with customers, reaching a new level of service and ensuring their maximum satisfaction. The implementation of the system makes Postbank the first banking institution in Southeast Europe with a high-tech solution of this class. With the help of artificial intelligence, the platform analyses with extreme precision the behaviour and expectations of customers and this allows the construction of an individual approach in the communication with them.

In February 2021, on the eve of its 30th anniversary, Postbank is launching a next generation credit card. The credit institution is the first bank in Bulgaria to launch a Mastercard UNIVERSE metal credit card. Once again, the Bank proves its position as an innovator in the sector and manages to offer its customers a product of the highest class. The new card is designed to meet the customers' highest expectations and requirements. It has a stylish design and as a product, brings the cardholders many privileges and additional conveniences, along with all the advantages of credit cards.

In June 2020, the Bank introduced a new process for issuing credit and debit cards, executed entirely remotely from the online ordering of a new card to its reception at a desired address, further enhancing customers' experience.

The Now credit program is one of Postbank's latest financial solutions, with which customers can request an express service for a credit product of their choice. It combines three product categories and provides the opportunity to quickly get a consumer loan, pre-approval for a housing loan, and a new debit or credit card. Postbank's new program gives a key advantage to the credit institution's customers because it relies on a comprehensive approach that provides an exceptional customer experience. With the Now credit program, they can not only order products tailored to their individual needs, but can also take advantage of them quickly, which is an extremely important factor in the current dynamic environment, which requires quick and adequate solutions.

Postbank offered its customers a consumer loan with promotional terms and the opportunity for interest-free overdraft in the first 12 months. The loan can be used to both cover current needs and consolidate liabilities, as customers have the opportunity to take advantage of additional preferential terms for the loan, if they meet the bank's requirements.

Postbank continued to offer targeted consumer loans for business training worldwide with no analogue on the Bulgarian market. It can finance fees under various programs such as Master of Business Administration, Executive Master of Business Administration, Advanced Management and more. The product was created in response to the growing interest in financing training that paves the way for career growth and development registered by the Bank in recent years.

In response to the growing consumer interest in the use of digital banking services, Postbank provides a new and convenient option for online consultation for a mortgage loan through the EVA Postbank mobile app. The innovative service facilitates access to information on mortgage loans, as well as the application procedure. Thanks to EVA Postbank, clients receive a personal consultation, get acquainted with the main steps in the process of buying and financing a new home, as well as with the documents required to apply for a mortgage loan. The addition of new functions in the mobile app is part of Postbank's strategy for complete digitalization of the processes and its drive to communicate with its customers in the most convenient way for them.

(All amounts are shown in BGN thousands unless otherwise stated)

NEW PRODUCTS (continued)

In February 2020, Postbank launched a new Super Mortgage Loan on the Bulgarian market - the first mortgage loan with a fixed rate for the entire term. The product provides customers who plan to buy a property with long-term security and predictability for the future. Its value can reach up to EUR 250,000 and can be used for the purchase, repair, construction or finishing of a home, as well as for refinancing an existing mortgage loan. The creation of the innovative product is dictated by the consumer's demand for security and easy cost planning.

In October, the financial institution introduced even more attractive terms for its mortgage loans and launched a special initiative called Mortgage Lending Month. Clients have the opportunity to take advantage of excellent financing conditions, saving up to BGN 700 from their initial loan-related costs. The initiative was held for the fourth consecutive year, and its launch is in line with consumer attitudes and the traditionally higher demand for mortgage loans in the last quarter of the year.

Towards the end of 2020, Postbank opened its first Online Mortgage Lending Centre, which introduced a new model for fast and convenient customer service. The new digital solution in the process of mortgage lending is a continuation of the services offered by the Bank in its specialized Mortgage Lending Centres. This way, the Bank upgraded the online mortgage loan application service in order to meet consumer's expectations for remote consultation and communication with the Bank in the process of granting the loan, transferring the process to a digital environment.

SUSTAINABLE DEVELOPMENT

In addition to its core business, Postbank continued to focus on the needs of the local community, supporting programs and initiatives, working together with established institutions and organizations. The Bank strives to educate both its employees and consumers and the public in a responsible attitude to everything that surrounds us. It aims not only to create competitive advantages by incorporating increasing added value into the products it offers, but also to reduce its negative impact on the environment by using every opportunity to contribute to nature conservation.

In 2020, the Bank implemented a number of socially significant projects in the fields of education, environmental protection, sports and corporate donation. Postbank is an active member and works in support of KRIB, AmCham, HBCB, Association of Banks in Bulgaria, Borica AD, Endeavor Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Donation Forum, Atanas Burov Foundation, the Bulgarian Network of the UN Global Compact, the Bulgarian Advertisers Association and the Bulgarian Fintech Association.

As a responsible company, Postbank has involved in the fight against COVID-19 and supported with donations for a total of over BGN 170,000 to the specialized obstetric and gynaecological hospital for active treatment "Maichin Dom", University Multiprofile Hospital for Active Treatment "St. Ekaterina", the Multiprofile Hospital for Active Treatment "Hadzhi Dimitar" in Sliven, the University Multiprofile Hospital for Active Treatment and Emergency Medicine "N. I. Pirogov" and the University Multiprofile Hospital for Active Treatment "Sofiamed". The bank joined the Hot Lunch for Medics initiative, and also donated 30 computers to disadvantaged students from the Ivan Vazov High School in the town of Mezdra.

The education of the children and young people of Bulgaria has been a constant part of the corporate social responsibility projects that Postbank develops and supports. That is why the Bank continued to develop its joint project with SoftUni in support of Bulgarian education, which started in 2018. It includes various activities for the preparation of young people for the professions of the future and realization in Bulgaria. Through a strategic partnership, the two organizations aim to encourage students

(All amounts are shown in BGN thousands unless otherwise stated)

SUSTAINABLE DEVELOPMENT (continued)

to develop their potential as IT and digital leaders, prepared for the rapidly changing environment and emerging banking trends. Postbank provided 15 scholarships for training at SoftUni. They were for the winners of the game BRAIN GAMES, which took place on the financial institution's Facebook page in two areas – programming and design. BRAIN GAMES is a game for smart and creative people.

IT specialists from Postbank once again participated in the IT Journey online career seminar, presenting the attractive job and career development opportunities in the company to the young SoftUni students. A leader on the Bulgarian market, Postbank has a rich and diverse infrastructure based on dynamically developing high-tech services and solutions, and provides huge opportunities for specialization and development in various technological areas. For this reason, the financial institution is a preferred top employer by the young software professionals who are at the beginning of their career.

The Bank joined the My Profession – My Future initiative, organized by the Bulgarian Municipalities Portal KMETA.bg, under the auspices of the Ministry of Labour and Social Policy. The aim of the initiative is to connect young professionals who are finishing their higher education with local companies and businesses that are looking for qualified employees. The Bank awarded one of the students who created a project on the already announced topic "The future favours the bold: Provoke it with your idea of a next-generation digital banking product."

For the fifth year in a row, Postbank joined the most recognizable initiative of the Bulgarian Network of the UN Global Compact, called Proud of my Parents' Work, and this time the meeting with the employees' children was completely virtual. Even remotely, the children had the opportunity to learn about their parents' professions, to understand exactly what people do in the bank and why their work is so important. Thanks to the attractive presentation of specialists from the Bank, the children learned that in Postbank there is a place for people with many different interests and skills.

In 2020, the financial institution once again supported the National Trade and Banking High School in Sofia, committing itself to become a mentor to one of the training banks. The young bankers from the 11th grade at the Postbank Next School training bank won the honourable 2nd place in the Multimedia Presentation category during the 21st traditional fair organized by the National Trade and Banking High School. The heated contest included 58 training companies, training banks and training insurance companies, with about 800 students from the 10th, 11th and 12th grade in the high school. The development and modern trends in the segment of card payments were only a couple of the topics in the online discussions, held as part of an educational program in which experts from Postbank presented the main business processes in the banking sector to the young people from the National Trade and Banking High School.

Within its traditional internship program, which is year-round, Postbank once again enabled talented students and young people with the motivation to prove their skills and start their professional careers in one of the biggest and innovation-leading banks in the market. The internship program has been part of Postbank's Corporate Social Responsibility Policy in support of young people for over 13 years.

For the fifth year in a row, Postbank, as a member of the Association of Banks in Bulgaria (ABB), has been involved in a European campaign to combat financial mules.

In October 2020, Postbank was once again a major partner of the charity relay run Postbank Business Run, organized annually by the Begach Club. It featured 183 teams from 70 companies from different sectors, which competed in support of two causes. It raised over BGN 8,000, which was donated to projects by the For Our Children Foundation for providing professional social services for the most vulnerable children at an early age and the Waterway Foundation for supporting children with special needs through kinesitherapy, water rehabilitation and modified swimming, so that they can grow as independent adults and get a chance for a full life.

Postbank is the only bank in Bulgaria which has a Green Board and an Environmental Office Unit within its organizational structure that works to protect the environment, both in terms of limiting the resources

(All amounts are shown in BGN thousands unless otherwise stated)

SUSTAINABLE DEVELOPMENT (continued)

used by the Bank and in terms of its financing activities. In addition, members of the board organize various outdoor initiatives involving other employees.

In September 2020, volunteers from Postbank continued with the transformation of a forest path in the area of Zlatnite Mostove (Golden Bridges) in Vitosha Nature Park. The Outdoor Green Stories initiative is part of the company's sustainable environmental policy, which shows how, with a concerted effort, we can change the environment around us for the better. This year's event also featured the founder of the first restaurant with zero waste in Bulgaria, Blazhka Dimitrova, who inspired the Bank's employees to be greener and more responsible

On the occasion of World Environment Day, the Bank joined a photo contest on Biodiversity, organized by the Bulgarian Network of the UN Global Compact, of which it is a member, winning four awards, thanks to photos taken by employees of the financial institution.

In 2020, Postbank launched the innovative information format in partnership with Bloomberg TV - the Finance in Focus podcast. The podcast was realized in seven episodes, in which experts from the bank tell the audience about the modern solutions in banking, the innovative banking products and services, and the various opportunities in the sector, which modern technologies provide. The initiative continues in 2021 with new episodes.

Postbank supports the talented children of Bulgaria and continued its long-term partnership with the "Bon-Bon" vocal group, and encouraged the premiere of the children's musical "Cinderella".

The employees of Postbank are also regular donors to the National Centre for Transfusion Haematology and participate in blood donation events organized and held at the head office of the Bank.

Throughout the year, the Bank continued its long-standing support and work with disadvantaged groups and the promotion of their active role in society. Support was provided to disadvantaged children in the town of Kazanlak, the elderly in the city of Ruse, the national Easter for Everyone campaign – Give a Gift to Grandma and Grandpa, as well as many other initiatives throughout the year.

Postbank traditionally joined in the festive decoration of Sofia. Following its established values, the financial institution believes that the overall well-being and development of society depends on everyone's efforts to improve our environment, so along with other socially oriented projects, the Bank has been taking care of the capital's festive splendour during the Christmas and New Year holidays for several years.

AWARDS:

- Two international awards for Postbank from the prestigious World Finance Digital Banking Awards 2020 competition by the authoritative World Finance Magazine;
- For the third year in a row, Postbank has been recognized as the Best in Retail banking in Bulgaria. The award is from the prestigious World Finance Banking Awards 2020, organized by World Finance Magazine, an authoritative publication that monitors and analyses the financial industry, international business and economy. The recognition comes for the numerous innovations, excellent results and sustainable retail banking model, combined with modern products and services for the benefit of consumers;
- For the ninth consecutive year, Postbank has been named the top trustee in Bulgaria by Global Custodian Magazine, the world's most prestigious trust services magazine, known for its annual surveys, which are considered a benchmark for the sector. Once again, the Bank has the highest numerical ratings in all categories;
- Two prizes for Bank of the Year and Development Dynamics from the 29th Annual Banking Awards by the Bank of the Year Association;

(All amounts are shown in BGN thousands unless otherwise stated)

AWARDS (continued):

- Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board of Postbank, was honoured with the Special Banker of the Year 2020 Award for leadership skills and dynamic development;
- Dimitar Shoumarov, Executive Director, Chief Financial Officer and Member of the Management Board of Postbank, won the prestigious Burov Award 2019 for Bank Management;
- First place in the Services Website category of the annual Site of the Year competition;
- Deal of the Year Award from the 6th annual Company of the Year Awards, organized by the Bulgaria Business Review group;
- Two awards in the Business Deal of the Year and the Innovative Project categories from the 6th b2b Media Annual Awards 2020;
- Award in the Best Employer in Banking category of the Career Show Awards 2020;
- Prize for the Green Together initiative in the Green Practices category of the Career Show Awards 2020;
- First prize in the Green Project category of b2b Media's tenth national Greenest Companies in Bulgaria competition;
- First prize in the Green Idea category of b2b Media's tenth national Greenest Companies in Bulgaria competition;
- Two first prizes in the Innovations in Talent Management and Employer Branding Project categories of the prestigious Employer Branding contest, organized by b2b Media in January 2020;
- For the second year in a row, Endeavor's Dare to Scale Growth Program, with Postbank as its main partner, is the winner in the prestigious Best Accelerator Program category of the 2020 CESAwards Bulgaria, organized by the Association of Bulgarian Leaders and Entrepreneurs (ABLE);
- Award in the Corporate Communication Campaign category of PR Prize 2020 for the Forward Together campaign;
- Award in the Internal Communications Project category of PR Prize 2020 for the Forward Together - One Team, One Bank project;
- Prize in the Employer Branding Communication Campaign category of PR Prize 2020 for the Forward Together campaign;
- Award in the Internal Communication Department of the Year category of PR Prize 2020;
- Award in the Employer Branding Communication Campaign category of PR Prize 2019 for the Digital and Successful Together project;

(All amounts are shown in BGN thousands unless otherwise stated)

SHARE CAPITAL STRUCTURE

As of 31 December, 2020 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 with a nominal value of BGN 1 per share. Eurobank S.A. owns directly 56.14%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V. and 0.01% by minority shareholders.

MANAGEMENT BOARD

As of 31 of December, 2020 the Management Board consist of the following members:

- Petia Dimitrova – Chief Executive Officer, Chairperson and member of the Management Board;
- Dimitar Shoumarov – Executive Director, Chief Financial Officer and Member of the Management Board;
- Asen Yagodin – Executive Director and Member of the Management Board;
- Panagiotis Mavridis – Chief Operating Officer and Member of the Management Board.

Mr. Iordan Souvandjiev was released as Member of the Management Board on 21.02.2020.

1. Shares and bonds of the company that are acquired, owned and transferred by the members of the Management Board during the year

No member of the Management Board has owned or transferred shares or bonds of the Bank.

2. The Management Board members' rights to acquire shares and bonds of the company

No member of the Management Board holds special rights of acquisition of shares or bonds of the Bank.

3. The Management Board member's ownership in other commercial enterprises, as:

3.1. Partners with unlimited liability

No member of the Management Board has been a partner with unlimited liability in other commercial enterprise.

3.2. Partners/shareholders holding more than 25 per cent of the capital of another company

No member of the Management Board holds more than 25 per cent of the capital of another company.

3.3. Participants in the management of other companies or cooperatives as procurators, managers or board members

- **Petia Dimitrova**

Association of Banks in Bulgaria, Bulgaria – Member of the Management Board (until 14.07.2020);

International Banking Institute OOD, Bulgaria – Member of the Management Board;

Endeavor Bulgaria, Association, Bulgaria – Member of the Management Board;

Borica AD, Bulgaria – Member of the Board of Directors;

Foundation Atanas Burov, Bulgaria – Member of the Management Board.

Confederation of the Employers and Industrialists in Bulgaria, Bulgaria – Associate member of the Management Board;

- **Dimitar Shoumarov**

Association "CFO Club", Bulgaria – Member of the Management Board (until 10.02.2020).
ERB Property Services Sofia EAD, Bulgaria – Member of the Board of Directors (until 08.01.2020);

Association of Banks in Bulgaria, Bulgaria – Member of the Management Board (effective as of 14.07.2020);

(All amounts are shown in BGN thousands unless otherwise stated)

MANAGEMENT BOARD (continued)

- **Asen Yagodin**
  Bulgarian Stock Exchange – Sofia AD, Bulgaria – Chairman and Member of the Board of Directors;
  Bulstrad Life Vienna Insurance Group JSC, Bulgaria – Independent Member of the Supervisory Board;
  ERB Property Services Sofia EAD, Bulgaria – Member of the Board of Directors (until 08.01.2020);
  Sports Club DFS-Lokomotiv Sofia, Bulgaria – Member of the Board of Directors;

- **Panagiotis Mavridis**
  ERB Property Services Sofia EAD, Bulgaria – Member of the Board of Directors (until 08.01.2020);
  IMO PROPERTY INVESTMENTS SOFIA EAD, Bulgaria – Executive Director and Member of the Board of Directors;
  IMO 03 EAD, Bulgaria – Executive Director and Member of the Board of Directors;

4. The Contracts under Article 240b of the Commerce Act

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commerce Act during 2020.

SUPERVISORY BOARD

As at 31 December 2020, the Supervisory Board consisted of the following members:

- Georgios Provopoulos – Chairman and Member of the Supervisory Board;
- Theodoros Karakasis – Deputy Chairman and Member of the Supervisory Board;
- Stavros Ioannou – Member of the Supervisory Board;
- Michalakis Louis – Member of the Supervisory Board;
- Anastasios Nikolaou – Member of the Supervisory Board;
- John David Butts – Member of the Supervisory Board;
- Ivi Vigka – Member of the Supervisory Board;
- Iasmi Ralli– Member of the Supervisory Board;
- Oliver Ellingham – Member of the Supervisory Board.

1. Shares and bonds of the company that are acquired, owned and transferred by the members of the Supervisory Board during the year

No member of the Supervisory Board has owned or transferred shares or bonds of the Bank.

2. The Supervisory Board member's rights to acquire shares and bonds of the company

No member of the Supervisory Board holds special rights of acquisition of shares or bonds of the Bank.

3. The Supervisory Board member's ownership in other commercial enterprises, as:

3.1. Partners with unlimited liability

No member of the Supervisory Board has been a partner with unlimited liability in other commercial enterprise.

(All amounts are shown in BGN thousands unless otherwise stated)

SUPERVISORY BOARD (continued)

3.2. Partners/shareholders holding more than 25 per cent of the capital of another company

- **Georgios Provopoulos**

Geonamar P.C - Partner

- **John David Butts**

Lex RX Bulgaria EOOD, Bulgaria – Sole Owner;
Ubad - Toro OOD, Bulgaria – Partner;
Lexrx Capital OOD, Bulgaria – Partner.

- **Oliver Ellingham**

Ellingham Limited - Partner

3.3. Participants in the management of other companies or cooperatives as procurators, managers or board members

- **Georgios Provopoulos**

Eurobank Private Bank Luxembourg S.A. – Vice Chairman and member of the Board of Directors;
Ellaktor SA, Chairman of the Board of Directors.

- **Theodoros Karakasis**

Eurobank A.D. Beograd, Serbia – Vice Chairman and member of the Board of Directors (Management Board);
Greek-Serbian Chamber of Commerce – Deputy Chairman and member of the Board of Directors.

- **Stavros Ioannou**

Eurobank Ergasias Services and Holdings S.A [former Eurobank Ergasias S.A[1]], Greece – Deputy Chief Executive Officer, Group Chief Operating Officer & International Activities Executive Director;
Eurobank S.A., Greece – Deputy Chief Executive Officer, Group Chief Operating Officer & International Activities, Executive Director and Member of the Executive Board (since 20.03.2020);
BE – Business Exchanges S.A, of Business Exchanges Networks and Accounting and Tax Services, Greece – Chairman and member of the Board of Directors;
Eurobank A.D. Beograd, Serbia – Member of the Board of Directors;
Eurobank Cyprus Ltd, Cyprus – Member of the Board of Directors
Grivalia Management Company S.A., Greece - Member of the Board of Directors

- **Michalakis Louis**

Eurobank Private Bank Luxembourg S.A., Luxembourg – Member of the Board of Directors;
Eurobank a.d. Beograd, Serbia – Chairman and member of the Board of Directors;

[1] On 20.3.2020 was approved the demerger of Eurobank Ergasias S.A. (“Demerged entity”), through sector’s hive down and the establishment of a new company-credit institution under the corporate name “Eurobank S.A.” (“the Beneficiary”) , following to which the Demerged Entity became the 100% shareholder of the Beneficiary. The 23.3.2020 change of Corporate Name of Eurobank Ergasias S.A. to “Eurobank Ergasias Services and Holdings S.A.”, consequently resulting to:

- Eurobank S.A. substitutes the Demerged Entity (former Eurobank Ergasias), by way of universal succession, to all the transferred assets and liabilities
- Eurobank S.A. became the shareholder of the Demerged Entity’s subsidiaries

(All amounts are shown in BGN thousands unless otherwise stated)

SUPERVISORY BOARD (continued)

Eurobank Cyprus Ltd, Cyprus - Chief Executive Officer;
NEU Property Holdings Limited, Cyprus – Chairman and member of the Board of Directors;
NEU 03 Property Holdings Limited, Cyprus – Chairman and member of the Board of Directors;
ERB New Europe Funding III Limited, Cyprus – Chairman and member of the Board of Directors;
CS Cyprus Seeds Ltd – Member of the Board of Directors;

- **Anastasios Nikolaou**

Eurobank A.D. Beograd, Serbia – Member of Management Board.

- **John David Butts**

Lexrx Capital OOD, Bulgaria – Managing Director;

- **Oliver Ellingham**

Ellingham Limited – Director;
Self Storage Number I Ltd – Sole Director;
Eurobank Cyprus Ltd, Cyprus – Chairman and member of the Board of Directors;
National Asset Management Agency (NAMA), Ireland – Member of the Board of Directors

- **Iasmi Ralli**

Eurobank Private Bank Luxembourg S.A., Luxembourg – Member of the Board of Directors

- **Ivi Vigka**

Eurobank A.D. Beograd, Serbia – Member of Management Board as of 01.12.2020

4. The Contracts under Article 240b of the Commerce Act

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commercial Act during 2020.

In 2020 the members of the Management and Supervisory boards have received remuneration amounting to BGN 2,839 thousand.

BANK STRUCTURE

Eurobank Bulgaria AD has no subsidiaries as of 31 December 2020. The Bank employs 3,267 people (2019:3,383).

(All amounts are shown in BGN thousands unless otherwise stated)

OBJECTIVES FOR 2021

In 2021 Eurobank Bulgaria plans to continue implementing its strategy based on three pillars – organic growth, digitalization and innovation and customer service.
The expected recovery of the economy will enable Eurobank Bulgaria to expand its lending portfolio with growth balanced between the retail and the wholesale segment. The Bank will maintain its prudent risk appetite and will not seek to expand its market share at any cost. The quality of the lending portfolio will be closely monitored, with a special attention given to the loans with relief measures under the moratorium and loans of clients operating in industries negatively impacted by the pandemic. Any potential problems related to the future servicing of the loans will be quickly addressed and suitable remedial solutions will be offered to the customers.
Deposit gathering will continue, but the main focus will be on utilizing the excess liquidity and improving the financial results of the Bank.
The capital buffers will be strengthened by retaining the profit for 2020, in line with BNB's decision for non-distribution of dividends. Profitability will remain a top priority, maintaining the excellent cost-to-income ratio and targeting to deliver a double-digit return on equity to its shareholders

Eurobank Bulgaria will continue to invest in digital solutions and plans to launch many innovative products and services in 2021 in order to distinguish itself from its competitors and be recognized as a leading innovator. The branch renovation program, the expansion of the self-service zones and the introduction of the new Premium banking centers will also play a vital role in improving the customer experience.

The next year is also important for Eurobank Bulgaria for another reason – the Bank will celebrate its 30th anniversary in April 2021 which will present an excellent opportunity to express gratitude towards our long-term customers, to energize our existing client base and attract new clients.

MANAGEMENT RESPONSIBILITIES

The Directors are required by Bulgarian law to prepare financial statements each financial year that give a true and fair view of the financial position of the company and its financial results as at year end. The management has prepared the enclosed financial statements in accordance with IFRS as adopted by the European Union.

The Directors confirm that suitable accounting policies have been used.

The Directors also confirm that the legislation applicable for banks in Bulgaria has been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets and for taking reasonable steps for the prevention and detection of potential fraud and other irregularities.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

Dimitar Shoumarov
Member of the Management Board, Executive Director and Chief Financial Officer

ЮРОБАНК БЪЛГАРИЯ АД
Postbank
ЦУ
Град София

22 March 2021
Sofia, Bulgaria

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail

(All amounts are shown in BGN thousands unless otherwise stated)

CORPORATE GOVERNANCE STATEMENT 2020

1. Corporate Governance Code and Practices.
In compliance with the Bulgarian legislation, and based on the international best practices on corporate governance, Eurobank Bulgaria AD ("the Bank") observes the National Corporate Governance Code ("Code"), which describes the basic corporate governance principles and practices.

2. Compliance with the National Corporate Governance Code
The Bank observes and complies in entirety with the Code. The Bank's Articles of Association ("AoA") and all adopted internal rules and manuals are in a full compliance with the Code and the applicable legislation. Presently there have not been any ascertained cases of non-compliance with the Code.

2.1. Internal Corporate Governance Code

The Bank has developed and adopted its Internal Governance Control Manual ("IGCM") and strictly applies its guidelines. The IGCM of the Bank covers the content and is in full compliance with the framework set by the Code.

2.2. Ethics Code

In the scope of ethics the Bank has adopted and currently applies a document named Code of Professional Conduct, containing rules in addition to the requirements of the legal framework which aim at setting minimum common internal rules and principles of professional and ethical conduct to be followed by the Staff of the Bank during the performance of their duties.

2.3. Conflict of interest

Procedures for preventing and detecting conflicts of interest in the Bank are incorporated in Internal Rules for Managing Conflict of interest. In accordance with these procedures, Executive Directors and other members of Management have a duty to inform the Supervisory Board / Management Board respectively of any personal interests they may derive from Bank's transactions that fall under their field of responsibility or any other conflict between their and the Bank's interests that may occur, in carrying out their duties.

2.4. Remuneration

The adopted Remuneration Policy of the Bank forms an integral part of the Bank's corporate governance practice and is developed in accordance with its operational model, business strategy, short and long-term interests of the Bank and incorporates measures to avoid conflict of interest. Also, the Remuneration Policy is consistent with and promotes sound and effective risk management and does not encourage excessive risk-taking on behalf of the Bank. Accordingly, the operating standards and mechanisms which have been adopted ensure that the levels of remuneration are directly linked to results and desired behavior.

The 2020 Boards and key management remuneration disclosures are included in Annual Disclosures according to the requirements of Regulation (EU) 575/2013 (art. 431-455).

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees.

3.1. General Meeting of the Shareholders

The General Meeting of the Shareholders ("GMS") comprises all shareholders with a right to a vote. They participate in the General Meeting personally or by a proxy, authorized by a written power of attorney. The shareholders and their proxies shall have in the General Meeting as many votes as they have shares in the capital of the Bank. The members of the Supervisory Board and the Managing Board may attend the General Meeting but without right to vote unless they are shareholders. The members of the Internal Audit Division and the Bank's auditors elected to audit and certify the Bank's annual financial statements may attend the General Meeting but without right to vote

(All amounts are shown in BGN thousands unless otherwise stated)

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.2. Supervisory Board and Supervisory Board Committees

The Supervisory Board ("SB") is a permanent collective body which exercises overall control over the business and financial activities of the Bank and also ensures the conformity of the Bank's activity with the applicable law, the Statute and the resolutions of the General Meeting of the Shareholders ("GMS") in the best interest of the Bank's shareholders, customers and employees. The exact number of the members of the Supervisory Board shall be determined by the General Meeting of the Shareholders; however, the Supervisory Board shall consist of at least 3 members at all times.
The composition of the SB consists of 9 (nine) members as of 31 December 2020, as the GMS appointed as new members Mrs. Ivi Vigka, Mrs. Iasmi Ralli and Mr. Oliver Ellingham for a term of office equal to the term of office of the rest of the Supervisory Board members, effective as of the announcement in the Commercial Registry on 21.08.2020

The members of the SB are obliged to perform their functions with duty of care and in the best interest of the Bank and its shareholders and to place the interest of the Bank and its clients above their own interest when performing their duties.

As at 31 of December, 2020 the members of the Supervisory Board are:

- Georgios Provopoulos - Chairman of the Supervisory Board;
- Theodoros Karakasis - Deputy Chairman of the Supervisory Board;
- Stavros Ioannou - Member of the Supervisory Board;
- Michalakis Louis - Member of the Supervisory Board;
- Anastasios Nikolaou - Member of the Supervisory Board;
- John David Butts - Member of the Supervisory Board;
- Ivi Vigka - Member of the Supervisory Board;
- Iasmi Ralli - Member of the Supervisory Board;
- Oliver Ellingham - Member of the Supervisory Board.

The Chairman, the Deputy Chairman and four of the Members are independent members.

The following Committees have been established to assist the Supervisory Board in discharging its responsibilities:

3.2.1. <u>Risk Committee</u>

The SB has delegated to the Risk Committee ("RC") the role of approving all strategic risk management decisions (e.g. risk appetite, capital allocation, balance sheet profile and risk management structure). The RC is in charge of monitoring the quantitative and qualitative aspects of all market, credit, liquidity and operational risks.

The members of the RC are appointed by the SB. Currently, the Risk Committee consists of 5 (five) members.

The RC meets at least quarterly. The RC meeting is effective when are present three members, but in any case including a majority of independent non-executive Members, one of whom is the Chairperson. In 2020 the RC held 4 (four) regular meetings and 8 (eight) extraordinary meetings.

(All amounts are shown in BGN thousands unless otherwise stated)

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.2. Supervisory Board and Supervisory Board Committees (continued)

3.2.2. Audit Committee

The Audit Committee ("AC") is appointed by the General Meeting of Shareholders following a proposal by the SB and its purpose is to assist the SB in discharging its oversight responsibilities primarily relating to:

- The review of the adequacy of the Internal Control and Risk Management systems and the compliance with rules and regulations monitoring process;
- The review of the financial reporting process and satisfaction as to the integrity of the Bank's Financial Statements;
- The External Auditors' selection, performance and independence;
- The effectiveness and performance of the Internal Audit function;
- The effectiveness and performance of the Compliance function.

In doing so, it is the responsibility of the Audit Committee to provide for open communication channels between the SB, Management, Internal Audit and External Audit.

The Audit Committee shall comprise of at least three members. As of December 2020 the Audit Committee consisted of three members who are appointed for three years with the option to renew their appointment, but in any case the service in the Committee should not be more than twelve (12) years in total. In 2020, two of the Audit Committee members were replaced due to expiry of their maximum term of office. The Audit Committee members' term of office was renewed until June 2021.

The AC members possess the necessary skills and experience to carry out the AC's duties.

The AC meets at least 4 (four) times per year or more frequently, as circumstances require, and reports on its activities and submits the minutes of its meetings to the Supervisory Board on a quarterly basis. During 2020, the Audit Committee held 4 (four) regular and 6 (six) extraordinary meetings.

3.2.3. Remuneration Committee

The Remuneration Committee ("RemCo") is a SB Committee which provides specialized and independent advice for matters relating to:

- remuneration policy and its implementation and for the incentives created while managing risks, capital and liquidity;
- safeguard the proper exercise of its duties and responsibilities, the efficient alignment of the personnel's remuneration with the risks the Bank undertakes and manages the required alignment between the Eurobank S.A. and the Bank;
- approve or propose for approval all remunerations of the key management personnel.

The Committee consists of at least 3 (three) members. The members are appointed by the Supervisory Board as the tenure of the Committee members coincides with the tenure of the SB, with the option to renew their appointment, but in any case the service in the Committee should not be more than twelve (12) years in total. All of the members are non-executive directors and the majority of them are independent.

In 2020, the Remuneration Committee consisted of four members. During 2020, the Remuneration Committee held 4 (four) meetings.

(All amounts are shown in BGN thousands unless otherwise stated)

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.2. Supervisory Board and Supervisory Board Committees(continued)

3.2.4. Nomination Committee

The Nomination Committee ("NomCo") has the responsibility to consider and make recommendations to the SB on matters related to the adequacy, efficiency and effectiveness of the Management Board, and to the appointment of key management personnel as per the provisions of Art. 73c, para 1 of the Credit Institutions Act and Art.12 of Ordinance № 20 of April 28, 2009, on the Issuance of Approvals to the Members of the Management Board (Board of Directors) of a Credit Institution and Requirements for Performing their Duties (issued by Bulgarian National Bank).

In 2020, the Nomination Committee consisted of four members. During 2020, the Nomination Committee held 3 (three) meetings.

3.3. Management Board and Management Board Committees

The Bank is managed by the Management Board ("MB") in accordance with the law, the Statute of the Bank, the Terms of Reference ("ToR") of the MB and other internal rules. The MB is a permanent collective body for management and representation of the Bank exercising its powers under the control of the SB and the General Meeting of Shareholders. The MB may consist of 3 (three) to 9 (nine) members, elected by the SB, for a term of three (3) years.
The composition of the MB as of 31 December 2020 is consisted of 4 (four) members following the release of Mr. Iordan Souvandjiev effective as of 21.02.2020 and SB appoints as a new member Mr. Panagiotis Mavridis, effective as of 30.06.2020. Three of the MB members are appointed as Executive Directors. The MB assigns, with the approval of the SB, the responsibilities for the management and the representation of the Bank to Executive Directors elected amongst Board's members. The authorization of the Executive Directors to represent the Bank can be withdrawn at any time by the MB, with the approval of the SB.

As of 31 December 2020 the members of the Management Board are:

- Petia Dimitrova - Chief Executive Officer and Chairperson of the Management Board;
- Dimitar Shoumarov - Executive Director, Chief Financial Officer and Member of the Management Board;
- Asen Yagodin - Executive Director and Member of the Management Board;
- Panagiotis Mavridis – Chief Operating Officer and Member of the Management Board.

Management Committees are set to assist the MB. Such committees are:

3.3.1. Assets and Liabilities Committee

The Assets and Liabilities Committee ("ALCO") has primary responsibility to advise the MB on the strategic management of the Bank's assets and liabilities with the aim to effectively manage the interest rate and liquidity risks of the Bank.

The Committee consists of key management personnel both from Eurobank Bulgaria AD and Eurobank S.A., including executive directors and key management functions representing all Retail and Wholesale business units.

ALCO has the following authority:

- To advise the MB on the strategic management of the assets and liabilities;
- To take all necessary decisions regarding the interest rate gap and liquidity management;

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.3. Management Board and Management Board Committees (continued)

- To set the target parameters of potential external funding;
- To review/monitor/establish business initiatives and/or investments that affect the bank's market and liquidity risk profile.

3.3.2. Regional Credit Committee

The MB has delegated to the Regional Credit Committee the functions to deal with customers with ratings below a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaira's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank S.A., including an Independent member.

3.3.3. Country Credit Committee

The MB has delegated to the Country Credit Committee the functions to deal with customers with ratings below a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaria's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank Bulgaria AD (including the CEO) and senior management from Credit Sector function of Eurobank S.A.

3.3.4. Special Handling Committee I

The MB has delegated to the Special Handling Committee I the functions to deal with customers above a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaria's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank S.A., including an Independent member.

3.3.5. Special Handling Committee II

The MB has delegated to the Special Handling Committee II the functions to deal with customers above a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaira's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank Bulgaria AD (including the Chief Executive Officer) and senior management from Credit sector function from Eurobank S.A.

3.3.6. Troubled Assets Committee

The MB has delegated to the Troubled Assets Committee the supervision and control of the management of the troubled assets.

The Committee consists of senior management personnel from Eurobank Bulgaria AD, including the Chief Financial Officer and Executive Director, and other key management personnel in the area of TAG, Risk and Strategic Planning.
The main duties and responsibilities of TAC are the following:

- To monitor the management of loans in arrears and NPLs;
- To determine and implement the strategy regarding management of troubled assets and monitor the effective implementation of this strategy.

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.3. Management Board and Management Board Committees (continued)

3.3.7. Loans and Products Committee

The Loans and Products Committee is responsible for the approval of new products, both in the retail and the wholesale areas.

The Loans and Products Committee consists of key management personnel including the Chief Executive Officer of the Bank.

3.3.8. Operational Risk Committee

The Operational Risk Committee ("ORC") has the responsibility to provide oversight of actual operational risk exposure and management and the processes implemented to assess, monitor and mitigate operational risk. The Operational Risk Committee consists of key management personnel in the areas of Risk, Operations, IT, Finance, TAG, Retail and Corporate. There is also a non-voting member from Internal Audit Division.

3.3.9. Country Procurement Committee

The Country Procurement Committee ("CPrC") is a management committee subordinated to the MB. The main responsibilities are related to evaluating the cost, necessity and business justification of procurement capital expenditures and operating expenses.

The Committee consists of senior management personnel including the Chief Executive Officer, Chief Financial Officer and Executive Director and Chief Operating Officer.

3.3.10. Related Employees Committee

The Related Employees Committee ("REC") is responsible for monitoring proper implementation of the Bank's Relatives Employment Policy and for deciding about cases which deviate from the Policy.

The Related Employees Committee consists of senior management personnel including the Chief Executive Officer and other key management functions in the areas of HR, legal and others.

3.3.11. Environmental and Social Steering Committee

Environmental and Social Steering Committee ("ESSC") is a MB Committee which provides all strategic decisions within the scope of the Environmental Policy of the Bank.

The Committee consists of key management personnel in the areas of Operations, Legal, Risk, Corporate Communications and Marketing, Retail and Wholesale.

3.3.12. Special Handling Monitoring Committee

The Special Handling Monitoring Committee (SHMC) is established as a MB committee that monitor and decide on strategy of problematic relationships.

The Committee consists of key management personnel including the Chief Executive Officer and other key management functions in the areas of HR, legal and others.

(All amounts are shown in BGN thousands unless otherwise stated)

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.4. CEO Management Committees

The CEO is empowered to establish committees to assist him/her as required, assigning their responsibilities and appointing the members, the chairman and the secretary.

3.4.1. Executive Committee

The Executive Committee ("ExCo") has the responsibility for the day-to-day management of the Bank, considers all issues pertaining to the current activities of the Bank and adopt decisions on them as to manage the implementation of the Bank's strategy, plan, direct and control the Bank's activities to ensure high level of performance and customer satisfaction, establish adequate systems of internal control and ensure they are properly maintained, consider the monthly financial reports before their submission to the MB.

The Committee consists of senior management personnel including Chief Executive Officer and other Executive Directors and all other key management functions covering all areas of the Bank's activities.

3.4.2. Ethics Committee

The Ethics Committee ("EC") mainly deals with staff cases of fraud and/or gross negligence and meets when there are issues to be considered.

The Ethics Committee consists of senior management personnel including the Chief Executive Officer, Head of HR and one Executive Director.

3.5. Main issues the SB dealt with during 2020

In discharging its responsibilities for 2020 the main issues the Board dealt with are related to:

a) Corporate governance:

- Approval of changes in the composition of the Management Board and renewal of its term of office;
- Approval of changes in the Bank's organizational structure;
- Approval for Eurobank Bulgaria AD to apply "Rules for deferral and settlement of payments on credit obligations to banks and their subsidiaries - financial institutions" with regard to the taken measures against the spread of Covid-19 pandemic;
- Approval for Eurobank Bulgaria AD to sign an agreement with BDB and to apply the programs proposed by BDB with regard to Covid-19 pandemic;
- Approval of changes in the Supervisory Board Committees' compositions;
- Preparation and convocation and holding of regular and irregular GMS;
- Regular update on MB and SB Committees' meetings;
- Other decisions as per Bank's Statutes.

b) Capital Adequacy:

- review of the 2019 Internal Capital and Liquidity Adequacy Assessment Process (ICAAP and ILAAP) – Pillar 2 Report. Capital Adequacy report was reviewed every quarter.

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.5. Main issues the SB dealt with during 2020(continued)

c) Business monitoring:
- approval of the 2019 annual financial statements;
- review of business developments and liquidity.

d) Risk Management and Internal Control:
- review of annual reports on evaluation of Internal Control Systems and Compliance Polices;
- review and approval of the 2019 Pillar 3 Report;
- review on the Risk and Capital Strategy and Risk Appetite Framework;
- review of Audit Committee meeting minutes and Key Audit Issues.

4. Board Diversity Policy

The Diversity Policy ("the Policy") sets out the approach to diversity on the MB and SB of the Bank and it is in accordance with international best practices and the EU and Bulgarian banking law provisions.

The Bank sees increasing diversity at Boards level as an important element in maintaining a competitive advantage. The diversity in the Boards includes and makes good use of differences in the skills, background, nationality, gender, age and other qualities of members. These differences are considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Bank's Boards appointments are made on merit, in the context of the skills and experience of the members in order to function effectively.

The NomCo is responsible to review and assess, on an annual basis, the structure, size, composition and performance of the members of the Boards and recommends the appointment of new members. In reviewing Board composition, the committee considers the benefits of all aspects of diversity including, but not limited to, those described above, in order to maintain an appropriate range and balance of skills, experience and background.

5. Board Nomination Policy and Board Induction Policy

In compliance with the requirements of the newly adopted Ordinance No.20 of BNB which promulgates European Banking Authority Guidelines EBA/GL/2017/12, on 20th of August, 2019 the Management Board and the Supervisory Board of Eurobank Bulgaria adopted Board Nomination Policy and Board Induction Policy.

5.1. The Eurobank Bulgaria AD Board Nomination Policy sets out the guidelines and formal process for the identification, selection and nomination and assessment of candidates for members and members for the Eurobank Bulgaria AD Management Board and Supervisory Board, as well as and Key Fuinction Holders selection and appointment. The Boards, supported by the Nomination Committee nominate candidates who meet the fit and proper requirements. The fitness and propriety of nominees is assessed against the following criteria: reputation along with honesty, integrity and trust, knowledge, skills, experience and other general suitability requirements, conflicts of interest and independence of mind; time commitment and collective suitability.

5.2. The Induction Program for the Members of the Management Board and the Supervisory Board which aimes to induct and train the newly appointed members, as well as current members of the Boards. Depending on the person's background it is evaluated which actions of the program shall be undertaken.

The objectives of the program are to: communicate Eurobank Bulgaria AD vision and strategy, to communicate practical procedural duties so as to reduce the time taken for an individual to become productive in its duties, to integrate an individual as a welcome member of the Board, to ensure retention of individuals for future periods, to become familiar with Eurobank Bulgaria AD organizational

5. Board Nomination Policy and Board Induction Policy (continued)

structure and to give new Members an understanding of Eurobank Bulgaria AD business and the markets in which it operates, create a connection with the Bank's employees and to provide an understanding of its main relationships with the regulators Bulgarian National Bank and Financial Supervision Commission.

6. System of Internal Controls and Risk Management Main Features

The Bank aims to adopt best practices regarding corporate governance, taking into account all relevant guidelines and regulatory requirements, as set by the Basel Committee on Banking Supervision, the European Banking Authority, the Bulgarian National Bank as well as any decisions of the competent authorities supervising the Bank.

As part of its overall system of internal controls the Bank has established a number of dedicated control functions whose main responsibility is to act as independent control mechanisms thus reinforcing the control structure of the Bank.

6.1. Principles of Internal Controls System:

The Bank has established a System of Internal Controls that is based on international good practices and COSO terminology and is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- efficient and effective operations,
- reliability and completeness of financial and management information,
- compliance with applicable laws and regulations.

The key principles underlying the system of internal controls are described below:

- **Control Environment:** The control environment is the foundation for all components of Internal Control System, providing discipline and structure and influencing the control consciousness of employees. Integrity and high ethical values stem from management's philosophy and operating style and appropriate recruitment and training policies ensure the competence of the Bank's people. The Bank's organization structure is suitable for its size and complexity with clearly defined responsibilities and reporting lines and clearly specified delegation of authority;

- **Risk Management:** The Bank acknowledges that taking risks is an integral part of its business. It therefore sets mechanisms to identify those risks and assess their potential impact on the achievement of the Bank's objectives. Because economic, industry, regulatory and operating conditions will continue to change, risk management mechanisms in place shall be set (and evolve) in a manner that enables to identify and deal with the special and new risks associated with changes;

- **Control Activities:** Internal control activities are documented in the policies and detailed procedures that are designed to ensure that operations are carried out safely and all transactions are recorded accurately in compliance with Management's directives and regulations. They occur throughout the organization and business processes, at all levels and in all functions. One of the prime organizational measures to ensure control effectiveness in the Bank is segregation of duties. Functions that shall be separated include those of approval (limits, limit excesses, specific transactions), dealing, administration (administrative input, settlement, confirmation checks,

6. System of Internal Controls and Risk Management Main Features (continued)

6.1. Principles of Internal Controls System (continued)

transaction approval check, documentation check, file keeping, custody and controlling (reconciliation, limit monitoring, excess approval check, risk management, compliance checks, physical counts);

- **Information and Communication:** Information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. The Bank has set effective communication channels to ensure that information is communicated down, across and up within the organization. Mechanisms are also in place to obtain appropriate external information as well as to communicate effectively with outside parties including regulators, shareholders and customers;
- **Monitoring:** The Bank has established mechanisms for the ongoing monitoring of activities as part of the normal course of operations. These include regular management and supervisory activities and other actions personnel take in performing their duties that assess the performance of internal control systems. There are also independent evaluations of the internal control system by the Internal Audit function, the scope and frequency of which depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies are reported upstream, with serious matters reported to the Management Board, the Audit Committee and the Supervisory Board.

6.2. Internal Audit

The Internal Audit function of Eurobank Bulgaria AD is an independent, objective assurance activity designed to add value and improve the Bank's operations. The Internal Audit Division (IAD) helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Management is responsible for establishing a system of internal controls that is adequate for the size and the complexity of the organisation. IAD is responsible for reporting on the adequacy and effectiveness of the system of internal controls.
In order to safeguard its independence IAD reports to the Audit Committee (AC) of the Bank and is independent of the Bank units with operational responsibilities and for administrative purposes reports to the CEO. The Supervisory Board has delegated the responsibility for monitoring the activity of the IAD to the Audit Committee.

IAD follows a risk-based methodology which examines the existence and adequacy of controls and assesses specific control objectives. IAD's work normally includes but is not restricted to the following:

- To provide reasonable assurance, in the form of an independent opinion, as to the adequacy and effectiveness of the internal control framework of the Bank. In order to form an opinion, IAD carries out audits based on an audit plan approved by the Audit Committee. The required frequency of audits depends on the level of risk in each business unit and/or process;,
- To provide proactive support to the Management of the Bank in the promotion of internal controls and risk management through recommending best practices in internal control;
- To assist Management in the prevention of fraud and unethical practices;
- To follow-up aiming to ascertain that appropriate action is taken on reported audit findings within agreed deadlines.

6. System of Internal Controls and Risk Management Main Features (continued)

6.3. Compliance

The mission of Compliance Division is to promote within the Bank an organizational culture that encourages ethical conduct and a commitment to compliance with laws and regulations as well as global governance standards. The Compliance division has been established under the approval of the Supervisory Board and the Audit Committee of the Bank. It is a unit with permanent function, independent of the Bank's business activities.

In order to safeguard its independence, the Head of Compliance Division reports to the Audit Committee, to the Eurobank Group Compliance Sector and for administrative purposes to the CEO. The Head of Compliance attends all Audit Committee meetings and submits quarterly reports summarizing the Division's activity and highlighting the main compliance issues. These reports include all matters falling under the scope of the Compliance Division, which the Head of Compliance believes should be reported to the Audit Committee or matters specifically requested by the latter.

Compliance Division duties and responsibilities indicatively include:

- development of Bank's methodology for assessment of the compliance risk to which the Bank might be exposed and assurance its proper implementation;
- verification that all new products and new procedures comply with the law and the applicable regulations;
- handling issues related to combating financial crime, in accordance with applicable laws and regulations as well as existing sanctions. The Division is responsible for the development of the necessary policies and procedures related to anti money laundering and combating financing of terrorism, as well as for monitoring adherence to them. Moreover, it is responsible for the provision of relevant training and guidance to the staff, as well as, for the cooperation with the relevant Authorities;
- providing timely and accurate responses to requests arising from Regulatory and other Authorities as well as, co-operating with them in order to facilitate their work;
- setting up internal documents related to staff business and internal conduct like code of conduct, external business activities, conflict of interest and anti-bribery, and monitoring staff adherence to such internal rules;
- monitoring compliance with legislative and regulatory provisions relating to the financial markets;
- monitoring compliance of the Bank with the legal and regulatory requirements applicable to the Bank;
- informing Management as well as providing advice regarding the impact of the changes in the regulatory framework falling under the Division's scope of responsibilities.

6. System of Internal Controls and Risk Management Main Features (continued)

6.4. Risk management

The Bank's risk governance framework comprises a number of different constituents. In particular, the Supervisory Board has set up a Risk Committee overseeing all risk management functions. It is currently complemented, by the Risk function.

The Supervisory Board has delegated to the Risk Committee the role of approving all strategic risk management decisions (e.g. local risk appetite, capital allocation, balance-sheet profile and risk management structure). The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks.

The Risk Committee is empowered to:

- Review and analyze the Bank's risk profile, identify and assess significant risks;
- Develop adequate policies and procedures in order to identify, assess, monitor and control significant risks;
- Inform the SB about significant problems or developments that could have an impact on the Bank's risk profile;
- Monitor the implementation of policies related to the management of significant risks;
- Approve adequate methodologies and models for risk assessment and exposure limitation.

The RC updates the SB on the adequacy of the risk management structure and reports key risks. Any significant matters of concern are escalated either to the SB or to the Eurobank S.A.'s Group Risk Committee.

Acknowledging the fact that Risk is embedded in every business activity undertaken, the organisational governance stems from the Supervisory Board through the Risk Committee, Management Board and Senior Management.

A robust risk management framework provides the cornerstone for implementing the Bank's risk strategy and achieving business goals. The Bank's approach is to provide direction on: understanding the material risks to achieving Bank's strategy; establishing risk appetite; and communicating the risk management framework. The process is then broken down into five steps. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it.

Steps	Activity
Identify	• Establish the policies and processes for identifying and understanding business risks.
Assess	• Establish and implement measurement and reporting standards and methodologies.
Control	• Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements; • Monitor the operation of the controls and adherence to risk direction and limits; • Provide early warning of control or appetite breaches.
Report	• Interpret and report on risk exposures, concentrations and risk-taking outcomes. • Communicate with external parties.
Manage and Challenge	• Review and challenge all aspects of the Group's risk profile; • Assess new risk-return opportunities; • Advise on optimising the Group's risk profile; • Review and challenge risk management practices.

6. System of Internal Controls and Risk Management Main Features (continued)

6.4. Risk management (continued)

The above processes are embedded in each of the risk types, supported by the appropriate infrastructure and staffing and are described in detail in the following sections.

Principle 1: The Management Board and Supervisory Board are responsible for approving and periodically reviewing the Risk strategy and Bank's risk policies.

Principle 2: Senior Management is responsible for implementation of the risk strategy approved by the Management Board and for developing policies and procedures for identifying, measuring, monitoring and controlling risks. Such policies and procedures address the risks in all Bank's activities, at both individual and portfolio level.

Principle 3: The Bank has sound processes and procedures for approving new loans and transactions, as well as amendments, renewal and re-financing of existing ones.

Principle 4: All exposures are monitored carefully and appropriate measures are taken to control and mitigate the risks.

Principle 5: The Bank has in place systems, processes and procedures for monitoring the performance of individual exposures, including computation and adequacy of provisions and reserves.

Principle 6: Information systems and analytical techniques are used to assist management in assessing and monitoring all significant risks as well as portfolio composition. The Bank uses internal models for credit risk assessment. For Retail portfolio application and behavioral scorecards are in place. For Corporate customer the Bank is using rating systems depending on the economic activity of the customers. The risk models and rating systems are consistent with the nature, size and complexity of the Bank's activities.

Principle 7: The Bank takes into account potential future changes in the macroeconomic environment when assessing individual loans and loan portfolios. The Bank is assessing its loan exposures and portfolios under stressful macroeconomic conditions.

Principle 8: The Bank has implemented process for independent, ongoing risk review and communicates risk figures to the Senior Management, Management Board and Risk Committee.

Principle 9: The Bank promotes an open risk culture to support trust and confidence.

Principle 10: The management and all employees feel committed to the Bank's risk policy principles and make their day-to-day decisions according to these guidelines.

Principle 11: The Bank's risk management is organized in a way to prevent conflicts of interests among employees and organizational units.

Principle 12: The Bank carries out on an annual basis the Internal Capital Adequacy Assessment Process ("ICAAP") and the Internal Liquidity Adequacy Assessment Process ("ILAAP").

7. Information under Article 10, paragraph 1, letter "c", "d", "e", “f" and “g" of the Directive 2004/25/EC of the European Parliament and the Council of 21 April 2004 on the proposals for takeover.

7.1. The Bank has not been involved in any significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34 /EC.

7.2. The Bank has not registered any holders of any securities with special control rights.

7.3. No restrictions have been implemented or exercised on the rights to vote, such as restrictions on the rights to vote of holders of a certain percentage or number of votes, deadlines for exercising the rights aloud or systems through which through the co-operation with the company the financial rights attached to the securities are separated of the possession of the securities. All of the Bank’s capital shares[2] are ordinary with a nominal value of BGN 1.00 (one) each, giving voting right, dividend right and liquidation quota proportionate to the nominal value of shares.

7.4. The main AoA, namely Statute of the Bank regulates the appointment and replacement of Boards members. It incorporates the main provisions and principals of the applicable commercial law. The document is publicly available on the account of the Bank in the Commercial Registry to the Registry Agency at the Ministry of Justice. The responsibilities that rest with the MB and SB members are given in Statute of the Bank and detailed in the ToR of the relevant Board. It also contains provisions governing the fundamental powers and manner of interaction between the Boards in the decision making process.

7.5. The provisions providing the competences of buy-back of shares are implemented in Art.11of the Bank’s Statute.

7.6. No information for takeover bids has been received by the Bank as of the date of issuance of these Financial statements.

[2] Information regarding the Share Capital Structure is included in the relevant section of the Annual Activity Report.

NON-FINANCIAL DECLARATION 2020

BUSINESS MODEL

Detailed information regarding Postbank's business model, objectives, structure and products is presented in the Corporate Governance Statement and the Annual Activity Report.

ENVIRONMENTAL POLICY STATEMENT

Postbank values sustainable business development much higher than short-term profitability and other commercial gains. We believe that our duty towards our shared natural environment is a crucial ingredient of our commitment to the wellbeing of our stakeholders and the society we operate in. Therefore, we strive to mitigate the adverse environmental impact of our activities and to make use of every opportunity to induce possible ecological changes.

As a major Bulgarian bank and a part of powerful international financial group, we recognize our numerous opportunities to influence public agenda. At the same time, we understand that this unique position we enjoy makes it all the more imperative for us to abide by the principles of good corporate citizenship and to set a positive example for all of our colleagues, partners, fellow citizens and clients to follow.

Our parent Eurobank Group boasts remarkable achievements in the field of environmental protection and we are determined to transpose and enrich its best practices on Bulgarian soil. In this respect, we are committed to set appropriate objectives and targets, to continuously monitor, assess and improve our own environmental performance and to comply with all relevant local, national and international legislation.

As a socially responsible institution, we have pledged to employ all leverage that we have to work for the preservation of the planet that our children will inherit. To this end, we are not only determined to pursue a policy of environmental responsibility in our everyday operation through our dedicated employees, but also to gradually extend it to our suppliers, clients and society in order to promote beneficial environmental practices and sustainable economic growth.

1. Postbank environmental management overview

Today's world is facing the phenomena of pollution and climate change. There is hardly any individual or organization who would doubt the importance of managing the consequences of the changes pollution and climate change create in the environment, and of coming up with the proper means to curb them.

There are two main types of environmental aspects of the activity of an organization – direct and indirect, and they lead to the manifestation of two corresponding types of impacts. The direct impacts on environment originate from the operation of a company (operational footprint), while the indirect stem from the products and services the company offers.

Banks do not directly impact the environment to a large extent since their consumption of energy and other resources is minor on the background of other industries. They, however, could contribute significantly to the effort to save the environment through selective lending practices as well as though the implementation of environmental risk management in their loan portfolios. Apart from that, banks could serve as a good example to society taking care of how internal resources are used.

Postbank is committed to actively manage both its direct and indirect environmental impacts on the environment. For that matter it has established Environmental and Social Steering Committee, Green Board and Environmental and Social Affairs Coordinator in its organizational structure, which are in charge of implementing the environmental policy of the Bank.

(All amounts are shown in BGN thousands unless otherwise stated)

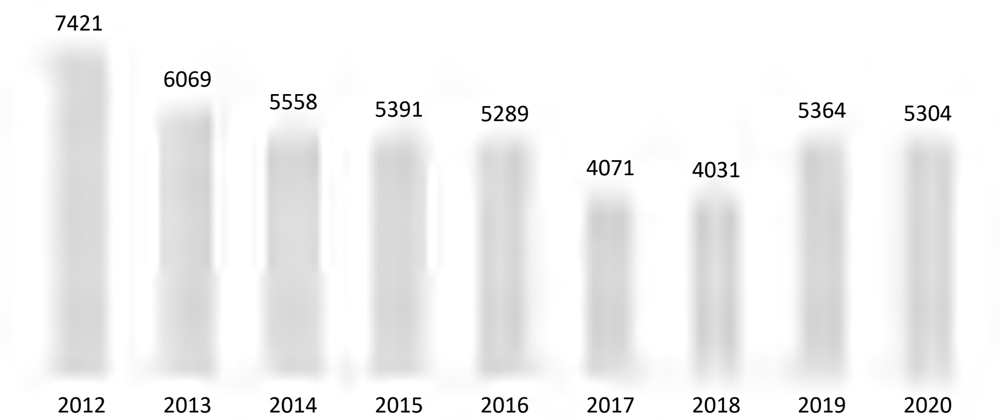
ENVIRONMENTAL POLICY STATEMENT (continued)

1. **Resource consumption management at Postbank**

Postbank have analyzed the materiality of its direct impacts on climate change and the environment and have identified three areas in which to concentrate systematic efforts to manage impacts – CO2 emissions from electricity consumption, and the use of paper and water.

The outcome of the analysis on 2020 data is presented in Fig. 1, 2, and 3 below through three selected environmental indicators. These indicators are presented in dynamics for a period spanning 2012-2020, and they reveal the trends of internal resource use as a result of the various initiatives that the Bank has been undertaking in order to manage them.

Fig 1. Postbank CO2 Footprint from Electricity Consumption, 2012-2020



Source: Environmental Office calculations based on Premises Department data

As evident from the chart presented in Fig. 1, CO2 emissions from electricity consumption in Postbank have slightly decreased – with 1% in 2020 YoY, and 40% when compared to the base 2012 year. The data on paper consumption are presented on Fig 2. show that the Bank has consumed 5% more paper in 2020 YoY. Both increases are attributed to the fact that Postbank network and client base have increased YoY post Piraeus Bank acquistion. It must be noted that the YoY increase could have been much higher, had no efforts been done in the areas of digitalization and paper use awareness of staff. When compared to the data from the base year – 2012, 2020 paper use is 6% less which is indicative of the rationale behind the numerous internal projects targeting paper use decrease throughout the years.

Fig. 2 Paper Consumption in Postbank, sheets of paper in millions , 2012-2020

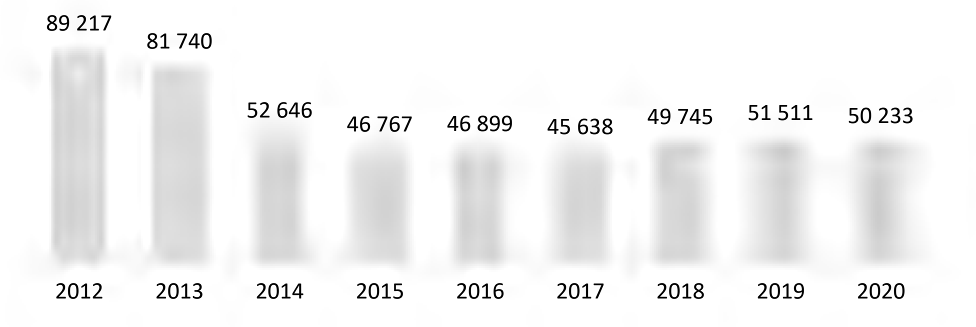
Source: Environmental Office calculations based on Facilities Department data

(All amounts are shown in BGN thousands unless otherwise stated)

ENVIRONMENTAL POLICY STATEMENT (continued)

Water consumption for office needs has shown a slight decrease of 3% in 2020 YoY. Data are presented on Fig. 3 below. The analysis of the data on water consumption for the past 9 years shows that it has been significantly decreased (78% since the base 2012) and for the past several years it has stabilized, revealing that the current level is most probably the optimum one.

Fig. 3 Water Consumption in Postbank, m3, 2012-2020

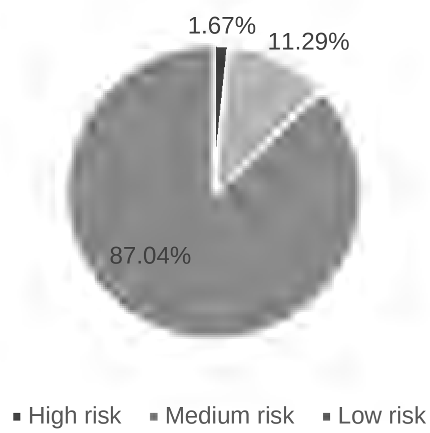


Source: Environmental Office calculations based on Premises Department data

Apart from the direct aspects and its impact on society, Postbank is continuously investigating the indirect environmental aspects from its operations. These are related primarily to its corporate and small and medium enterprises loan portfolio. In this area, Environmental and Social Risk Management Procedure is implemented to ensure that lending is provided accounting for the risks for the environment. The Bank encourages green businesses indirectly though the implementation of this procedure. It prescribes the particular methodology which is followed to ensure that environmental and social risks are evaluated and monitored during the loan approval and in the subsequent monitoring process.

The data on the distribution of environmental and social risk across the corporate and small and medium enterprises loan portfolio are presented in Fig. 4 below. They show that the majority of the deals in this portfolio, 87%, have low environmental and social risk, 11% have medium risk, and only less than 2% are characterized by having high such risks.

Fig. 4. Distribution of Levels of Environmental Risk in the Loan Portfolio of the Bank



Source: Environmental Office calculations based on CBD and SBB Divisions data

(All amounts are shown in BGN thousands unless otherwise stated)

ENVIRONMENTAL POLICY STATEMENT (continued)

In 2020 Postbank achieved the goals it had set for the year in the area of environmental management: prior to the introduction of the lockdown in March 2020, all small business banking staff underwent training in the application of the Environmental and Social Risk Management Procedure, afterwards training materials were uploaded on the intranet of the Bank so that they are accessible to all staff and training could continue on-line.

Postbank views staff awareness as key for the implementation of its environmental policy. That is why it plans to continue efforts in this direction in 2021. The particular goals that the Bank has set for 2021 in the area of environmental managements are in line with the new context in which banks in the European Union are operating – one that implies placing climate-related and environmental risk management in the center of their business models and strategy. Having considered all this, Postbank has identified the following goals for 2021:

1. Produce a GAP analysis vis-à-vis existing policy recommendations and good practice in the area of climate change and environmental management;
2. Upgrade and enhance its documentation in the area of environmental management to capture the latest policy trends in the EU;
3. Continue online and, if possible, on site, training of its staff on the application of the Environmental and Social Risk Management Procedure in Lending.

2. Fines, sanctions or cases brought through dispute resolution mechanisms

In 2020 Postbank had no fines, sanctions or cases in the area of environmental management.

SOCIAL MATTERS AND MATTERS RELATED TO THE EMPLOYEES

1. Number of employees, gender distribution by areas of occupancy

Sustainable Postbank policy is to treat all the employees equally, irrespective of gender, nationality, age or other traits. The Bank aims to build and develop relationships of mutual trust and respect.

The distribution of employees by gender and age group is presented in the table below.

Fig. 5 Employee distribution based on gender and age group in 2020

< 25 years		25-34 years		35-44 years		45-54 years		> 55 years	
Women	Men	Women	Men	Women	Men	Women	Men	Women	Men
75.69%	24.31%	76.77%	23.23%	76.28%	23.72%	78.95%	21.05%	78.35%	21.65%

Postbank gives equal opportunities to its employees and values their talent and innovative ideas. Everyone receives remuneration depending on the contribution and the level of responsibility that are determined by the occupied position and the labor market.

Staff distribution by positions and gender is presented in the table below.

Fig. 6 Distributions by areas of occupancy and gender for 2020

	Specialist positions	**Expert positions**	**Managerial positions**
Female	91.02%	71.46%	58.46%
Male	8.98%	28.54%	41.54%

SOCIAL MATTERS AND MATTERS RELATED TO THE EMPLOYEES (continued)

2. Development of the Human Capital

Human capital is a key factor in any organization's success. Postbank's management shares the belief that taking care of its employees, their development and motivation is essential for the achievement of both short-term and strategic goals of the organization.

Dynamic environment and intense competition on the banking market impose ambitious and multidimensional requirements to the management of human resources. They are related from one side to the capability to select the right people for appropriate positions, to be ensured effective trainings in order quickly to develop all the necessary professional skills, and from the other - to develop and motivate talents within the organization.

Human Resources Department contributes to the success of the Bank by creating and maintaining the environment, strengthening the achievements of the employees and directing them to continuous improvement of their qualification

In November 2020, for demonstrated leadership skills and dynamic development of the bank, Ms. Petya Dimitrova, Chief Executive Officer and Chairman of the Management Board of Postbank, was awarded for the second consecutive year and for the fifth time in her career with a special award "Banker for the year 2020 ". In October, our company have received two prizes for Bank of the Year and Development Dynamics, which was awarded in the 29th edition of the Annual Bank Awards, organized by the Association – Bank of the Year.

As a leading employer that evaluates its success through the satisfaction of its employees, Postbank has always strived to develop the skills of the people in the team and to provide an environment for the development of their potential. Thanks to its active policy in this direction, the financial institution received in early February 2020 two gold awards from the annual Employer branding awards organized by b2b Media. The company's focus is on a wide range of activities to optimize the work environment, continuing professional development and training, engaging employees in corporate social responsibility projects with high added value for society. Postbank was among the most sought-after employers at the first-of-its-kind Virtual National Career Days.

The financial institution is the first company on the Bulgarian market to add to its portfolio of digital solutions the mobile application Digital Office for fast and easy internal communication with its employees. In this way, it strengthened its position as a preferred employer on the Bulgarian market. The Digital Office application saves time and resources by providing a modern solution for complete management and digitalization of internal processes through online communication in the team.

Via the internal e-bulletin, distributed weekly by e-mail, the important new information, relevant to staff members is instantly communicated to all employees. This information often includes key corporate news, information about launching of new products and services, special moments from internal events and photos of different out-of-the-office activities of Postbank team members.

In addition to its core business, Postbank continued to focus on the needs of the local community, supporting programs and initiatives in conjunction with established institutions and organizations. The Bank strives to educate both its employees and consumers and the public in a responsible attitude to everything that surrounds us. It aims not only to create competitive advantages by incorporating increasing added value into the products it offers, but also to reduce its negative impact on the environment by using every opportunity to contribute to nature conservation.

(All amounts are shown in BGN thousands unless otherwise stated)

SOCIAL MATTERS AND MATTERS RELATED TO THE EMPLOYEES (continued)

3. Trade Unions, Compensations and Social Benefits

Postbank is aware of the social impact of its position as a major employer and is determined to provide its staff with various compensations and social benefits. In this context, the Bank has implemented and strives to extend a consistent policy of providing support human additional benefits to its workforce and of applying strict health and safety standards at the workplace. The Bank provides various forms of support for ad hoc cases. All employees of the Bank are provided with an additional health insurance in a private fund fully covered by the employer. The additional insurance provides for medical treatment costs and can be extended to employees' family members at preferential terms upon choice. The Bank provides its staff with an additional life insurance, covering the expenses upon occurrence of an insurance event. Moreover, the opportunity to use the Banks' products and services at preferential terms is a significant benefit for Postbank's employees. These include housing and consumer loans, credit cards, overdrafts, online banking.

Postbank continues with its internal donation platform for supporting colleagues in need, called TOGETHER. This is a fund raising charity program of the Bank planned as one of its main long-term projects which aims to upgrade the ongoing efforts to develop loyalty and employee care. The idea of the platform is to create solidarity among colleagues and to be a working mechanism for financially helping employees with serious health problems.

There are no trade unions in the Bank.

4. Performance Management Policy and Procedure

The Bank's commitment to employees' personal and professional development is one of its major values. In this respect, every year each employee' personal performance is evaluated during the annual performance appraisal process, which supports their further purposeful skill development.

Performance management procedures guarantee transparency and equity. Every employee is assessed regardless of their position, having in mind employees' responsibilities and tasks. Moreover, the system assesses not only task performance, but also the way they have been fulfilled, which improves the communication between the evaluators and the evaluated, and encourages employees' personal and professional development.

The system guides employees to the business spheres where their skills and potential will be of the highest value and, at the same time, encourages them to achieve their professional goals.

5. Health and Safety at Work

The success and productivity of a business relies on the efficiency of its employees. This is why ensuring healthy and safe working environment for each employee is the basis for health management at the Bank. Postbank not only strictly adheres to all safety standards prescribed by the labour legislation, but also undertakes additional actions to protect its employees' health. These initiatives are the result of the Bank management's belief that the creation of a safe and healthy work environment is a prerequisite for better employee motivation and conditionality and greater competitiveness.

Postbank works in close cooperation with a labour medicine service to ensure the safety and health of its staff during work. A joint assessment is made of the risks for the staff's health and safety, including assessment upon changes of labour conditions at the workplace and upon introduction of new technologies. All Postbank's employees are represented on the Health and Safety Committee – a centralized committee based in Sofia and is responsible for the Bank's head office and branches.

(All amounts are shown in BGN thousands unless otherwise stated)

SOCIAL MATTERS AND MATTERS RELATED TO THE EMPLOYEES (continued)

6. Human Rights matters

Postbank opposes to any form of discrimination, inequality or human rights violation as it recognizes and promotes individuality. All the Bank's policies, procedures and human resource management practices are governed by respect for human rights. This ensures that there is no place for discrimination, while diversity is recognized and promoted. Postbank fosters business ethics and excellence, transparency, human rights and accountability. Mutual respect and dignity are core priorities and essential elements in Bank's Code of Conduct. In its selection of suppliers, the Bank aims at ensuring complete respect of human rights in those companies.

In 2020, the Bank implemented a number of socially significant projects in the field of education, environmental protection, sports and corporate cahrity. Postbank is an active member and works in support of initiatives of CEIBG, AmCham, NVSV, Association of Banks in Bulgaria, Borika AD, Association "Endeavor Bulgaria", the Bulgarian Forum of Business Leaders, the Association "Bulgarian Donors' Forum", Atanas Burov ", the Bulgarian Network of the UN Global Compact, the Bulgarian Association of Advertisers and the Bulgarian Fintech Association.

As a responsible company, Postbank joined the fight against Covid-19 and supported with gratuitous donations totaling over BGN 170,000 the specialized hospital for active treatment in obstetrics and gynecology "Maichin dom", University Hospital"St. Catherine", Hospital "Hadji Dimitar" in Sliven, the University Multidisciplinary Hospital for Active Treatment and Emergency Medicine"N. I. Pirogov" and Sofiamed University General Hospital for Active Treatment. The bank also joined the initiative "Hot lunch for medics" and also donated 30 computers for disadvantaged students from the High School "Ivan Vazov" in the town of Mezdra.

The education of children and young people in Bulgaria has always been part of the developed and supported projects for corporate social responsibility of Postbank. Therefore, the Bank continued to develop its joint project with SoftUni in support of Bulgarian education, which started in 2018. It includes various activities to prepare young people for the professions of the future and realization in Bulgaria. Through the strategic partnership, the two organizations aim to encourage students to develop their potential as IT and digital leaders, prepared for the dynamically changing environment and new trends in banking.

MATTERS RELATED TO ANTI-CORRUPTION AND BRIBERY

Eurobank Bulgaria AD has adopted a policy of zero tolerance against bribery. The internal policies and procedures in place aim to establish a robust internal system and controlling environment that minimize corruption risk and to set out a clear approach of action in certain risky situations.

The Bank's anti-bribery instruction expressly prohibits the direct or indirect participation in any corruption-related activities. The prohibition applies to all employees and persons acting in the name and on behalf of the Bank. It is the duty of all employees to be vigilant and to report any cases or attempts of such deeds, as well as suspicions of such.

UN GLOBAL COMPACT NETWORK BULGARIA

Postbank is an active member of the Bulgarian UN Global Compact Network as part of its purposeful support for initiatives for the benefit of society and the protection of the environment. It's participation in the organization's activity is another proof of the Bank's readiness to pursue a sustainable corporate policy that respects the ten universal principles for social responsibility and environmental protection of the Global Compact, namely:

<u>Human Rights:</u>
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and
Principle 2: make sure that they are not complicit in human rights abuses.

<u>Labour Standards:</u>
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: eliminate discrimination in respect of employment and occupation.

<u>Environment:</u>
Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility;
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

<u>Anti-Corruption:</u>
Principle 10: Businesses should work against all forms of corruption, including extortion and bribery

(All amounts are shown in BGN thousands unless otherwise stated)

Income statement	**Notes**	**Year ended 31 December**	
		2020	**2019**
Interest income calculated using the effective interest method		364,866	334,088
Other interest income		9,658	13,287
Interest expense and similar charges		(12,659)	(10,897)
Net interest income	6	361,865	336,478
Fee and commission income		122,917	111,947
Fee and commission expense		(19,518)	(17,935)
Net fee and commission income	7	103,399	94,012
Bargain gain	38	-	78,690
Other operating income, net	8	1,318	1,001
Dividend income		445	56
Net trading income	9	436	289
Gains less (losses) from trading securities	17	(86)	259
Gains less (losses) from investment securities	19b	3,071	4,970
Repossesed assets impairment		(700)	(475)
Other operating expenses	10	(188,483)	(198,633)
Deposit Insurance Fund expense		(28,043)	(19,501)
Impairment charge for credit losses	12	(83,403)	(66,067)
Profit before income tax		169,819	231,079
Income tax expense	13	(17,143)	(17,380)
Profit for the year		152,676	213,699

The financial statements were authorized by the management on 22 March 2021.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

Dimitar Shoumarov
Member of the Management Board, Executive Director and Chief Financial Officer

Initialled for identification purposes in reference to the auditor's report:

For KPMG Audit OOD:

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Registered Auditor responsible for the audit

Ivan Andonov
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For Baker Tilly Klitou and Partners OOD:

Galina Lokmadjieva
Registered Auditor responsible for the audit

Spyridon Gkrouits
Authorised representative
For Baker Tilly Klitou and Partners OOD

(All amounts are shown in BGN thousands unless otherwise stated)

Statement of comprehensive income	**Notes**	**Year ended 31 December 2020**	**2019**
Profit for the year		**152,676**	**213,699**
Items that are or may be reclassified subsequently to profit and loss:	**14**	***(1,126)***	***(1,972)***
Debt securities at FVOCI			
-net changes in Fair Value, net of tax		(256)	1,680
-reclassified to profit or loss, net of tax		(870)	(3,652)
Items that will not be reclassified to profit or loss:		***1,365***	***729***
Change in FV of property, plant and equipment, net of tax		912	903
Remeasurements of retirement benefit obligations, net of tax		453	(174)
Other comprehensive income for the year	14	**239**	**(1,243)**
Total comprehensive income for the year		**152,915**	**212,456**

The financial statements were authorized for issue by the Management on 22 March 2021.

Petia Dimitrova

Chairperson of the Management Board and Chief Executive Officer

Dimitar Shoumarov

Member of the Management Board, Executive Director and Chief Financial Officer

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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

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

(All amounts are shown in BGN thousands unless otherwise stated)

Statement of financial position	Notes	As at 31 December 2020	2019
Assets			
Cash and balances with the Central Bank	15	1,935,834	1,454,306
Loans and advances to banks	16	515,906	1,702,796
Trading assets	17	40,672	8,805
Derivative financial instruments	25	1,352	1,502
Loans and advances to customers	18	7,798,875	7,111,741
Investment securities	19a	1,463,077	579,275
Shares in subsidiary undertakings	37	-	6,763
Current income tax recoverable		2,518	1,398
Deferred tax assets	28	11,191	16,050
Property, plant and equipment, including right of use assets	21	211,255	200,987
Investment property	20	890	1,488
Intangible assets	22	76,916	61,850
Other assets	23	45,363	36,739
Total assets		**12,103,849**	**11,183,700**
Liabilities			
Deposits from banks	24	7,739	15,036
Derivative financial instruments	25	9,442	8,353
Due to customers	26	10,234,485	9,438,085
Other borrowed funds	27	29,370	38,924
Provisions for other liabilities and charges	29	13,426	26,583
Retirement benefit obligations	30	8,238	8,062
Other liabilities	31	177,602	175,363
Total liabilities		**10,480,302**	**9,710,406**
Shareholders' equity			
Share capital		560,323	560,323
Statutory reserves		282,521	282,521
Retained earnings and other reserves		780,703	630,450
Total shareholders' equity	32	**1,623,547**	**1,473,294**
Total shareholders' equity and liabilities		**12,103,849**	**11,183,700**

The financial statements were authorized by the management on 12 March 2021

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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

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

(All amounts are shown in BGN thousands unless otherwise stated)

Statement of changes in shareholders' equity	Share capital	Property revaluation reserve	Fair value reserve	Statutory Reserves	Retained earnings and other reserves	Total
Balance at 01 January 2019	560,323	1,023	22,272	282,521	384,521	1,250,660
Profit for the year	-	-	-	-	213,699	213,699
Other comprehensive income						
Change in fair value reserve on financial assets at FVOCI	-	-	(1,972)	-	-	(1,972)
Revaluation of property, plant and equipment	-	903	-	-	-	903
Remeasurements of retirement benefit obligations, net of tax	-	-	-	-	(174)	(174)
Total comprehensive income for 2019	-	903	(1,972)	-	213,525	212,456
Changes in post acquisition reserves of Piraeus Bank Bulgaria	-	-	-	-	10,178	10,178
Transfer to retained earnings	-	(72)	-	-	72	-
Balance at 31 December 2019	560,323	1,854	20,300	282,521	608,296	1,473,294
Balance at 01 January 2020	560,323	1,854	20,300	282,521	608,296	1,473,294
Profit for the year					152,676	152,676
Other comprehensive income						
Change in fair value reserve on financial assets at FVOCI			(1,126)			(1,126)
Revaluation of property, plant and equipment		912				912
Remeasurements of retirement benefit obligations, net of tax					453	453
Total comprehensive income for 2020		912	(1,126)		153,129	152,915
Acquisition of subsidiary (ERB Leasing Bulgaria)					(2,662)	(2,662)
Balance at 31 December 2020	560,323	2,766	19,174	282,521	758,763	1,623,547

The financial statements were authorized by the management on 22 March 2021.

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(All amounts are shown in BGN thousands unless otherwise stated)

Statement of cash flows

	Year ended 31 December	
	2020	**2019**
Cash flows from operating activities		
Interest received	368,235	356,819
Interest paid	(13,937)	(9,116)
Dividends received	445	56
Fees and commission received	123,447	111,683
Fees and commission paid	(17,168)	(15,575)
Amounts paid to and on behalf of employees	(98,484)	(91,943)
Net trading and other income received	161	413
Other operating expenses paid	(98,044)	(87,034)
Tax paid	(13,550)	(18,691)
Cash from operating activities before changes in operating assets and liabilities	**251,105**	**246,612**
Changes in operating assets and liabilities		
Net (increase) in reserve with the Central Bank	(45,256)	(112,595)
Net (increase) in loans and advances to banks	(97,812)	-
Net (increase) in trading securities	(31,867)	(734)
Net (increase) in loans and advances to customers	(714,548)	(615,736)
Net (increase) in other assets	(3,767)	(1,122)
Net (decrease)/ increase in derivatives instruments	(425)	2,793
Net (decrease) in due to other banks	(7,297)	(13,043)
Net increase in amounts due to customers	778,888	625,111
Net (decrease) in other liabilities	(12,257)	(4,732)
Net cash flows from operating activities	**116,764**	**126,554**

(Continued on the next page)

(All amounts are shown in BGN thousands unless otherwise stated)

Statement of cash flows (continued)

	Year ended 31 December	
	2020	2019
Cash flows from investing activities		
Payment for acquisition of Piraeus Bank, net of cash acquired	-	774,446
Net proceeds from purchase/ sale of shares in subsidiaries	-	(1,141)
Purchase of property, plant and equipment and intangible assets (Notes 21,22)	(25,727)	(20,830)
Purchase of investment securities	(1,258,656)	(157,271)
Proceeds on disposal of property and equipment	106	456
Proceeds from sale of investment securities	342,454	51,727
Net cash flow/(used in) from investing activities	**(941,823)**	**647,387**
Cash flows from/ (used in) financing activities		
Long-term debt repaid	(9,566)	(6,548)
Payment of lease liability	(13,798)	(12,068)
Net cash used in financing activities	**(23,364)**	**(18,616)**
Effect of exchange rate changes on cash and cash equivalents	163	(357)
Net change in cash and cash equivalents	**(848,260)**	**754,968**
Cash and cash equivalents at beginning of year	**2,740,026**	**1,985,058**
Cash and cash equivalents at end of year (Note 33)	**1,891,766**	**2,740,026**

The financial statements were authorized by the Management on 22 March 2021.

Petia Dimitrova

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ЮРОБАНК БЪЛГАРИЯ АД
Postbank
Град София

ОДИТОРСКО ДРУЖЕСТВО
София
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КПМГ ОДИТ ООД

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

The following notes set out on pages 52 to 173 form an integral part of these financial statements
Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements

1.General information

Eurobank Bulgaria AD (the Bank), UIC 000694749, was incorporated and is domiciled in Bulgaria. The Bank is a joint stock company limited by shares and was set up in accordance with Bulgarian regulations. The Bank operates under a full banking licence issued by the Bulgarian National Bank.

Eurobank Bulgaria AD provides retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia and it has 201 network locations and 13 business centers (2019: 200 network locations and 13 business centers). The registered office address is: 260 Okolovrasten pat, 1766 Sofia, Bulgaria. The Bank employs 3,267 people (2019: 3,383).

Eurobank Bulgaria AD is a subsidiary of Eurobank Group, Greece (the Group). The parent company is incorporated and is domiciled in Greece.

Position of Eurobank Group, Greece

During 2020 and the first quarter of 2021, the outbreak of coronavirus (Covid-19) pandemic and the measures adopted to contain the virus expansion have defined the economic environment in Greece and the other countries where the Group has a substantial presence. More specifically, the (Covid-19) pandemic posed substantial uncertainties and risks for both the macroeconomic environment and the ability of numerous businesses to operate under the restrictive measures, including countrywide and local lockdowns, adopted to contain the virus expansion.

In response to the Covid-19 outbreak, there has been a monetary, fiscal and regulatory support to the economy and the banking system by both Greek Government and European authorities. According to the 2021 Budget, the Greek government’s planned total measures for 2020 and 2021 aiming to address the economic effects of the Covid-19 pandemic amount to €23.9 billion and €7.6 billion respectively.

The cost of the measures aiming to address the economic consequences of the Covid-19 pandemic is expected to rise further compared to the 2021 Budget, following the strict lockdown measures between 11 February and 8 March 2021 for the Attica region.

On top of the above, the European Council on 21 July 2020 agreed a recovery package amounted to € 750 billion under the EC’s Next Generation EU framework in order to support the recovery and resilience of the member states' economies, out of which ca € 32 billion will be available for Greece, provisionally divided to € 19.4 billion in grants and € 12.7 billion in loans.

The respective amount for the Multiannual Financial Framework 2021-2027 (MFF) is at € 1,100 billion, of which ca € 40 billion will be available for Greece. Furthermore the ECB, on 24 March 2020 established a temporary Pandemic Emergency Purchase Programme (PEPP), as of mid-February 2021, is at € 1,850 billion, out of which ca € 46 billion will be available for the purchase of Greek public and private sector securities.

Regarding the outlook for the next 12 months, the major macroeconomic uncertainties in Greece mainly relate with the outbreak of Covid-19 pandemic such as the evolution of the health crisis and its negative effect on the domestic, regional and global economy, the progress on the vaccination programmes to contain effectively the virus expansion, as well as the effect of fiscal measures aiming to address the effect of the pandemic the economy.

The Group is continuously monitoring the developments on the Covid-19 front and has increased its level of readiness, so as to accommodate decisions, initiatives and policies to protect its capital and liquidity standing as well as the fulfilment, to the maximum possible degree, of its strategic and business goals for the quarters ahead, focusing primarily on the support of its clients to overcome the challenging juncture, the mitigation of “cliff effects” when the moratoria measures begin to expire, the protection of its asset base and the resilience of its pre-provision profitability.

As at 31 December 2020, the Group’s total CAD and Common Equity Tier 1 (CET1) ratios stood at 16.3% (31 December 2019: 19.2%) and 13.9% (31 December 2019: 16.7%) respectively.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1.General information (continued)

Related party transactions - Eurobank S.A. shareholding structure

On 20 March 2020, the demerger of “Eurobank Ergasias S.A.” (Demerged Entity) through the banking sector’s hive down and its transfer to a new credit institution that has been established under the corporate name “Eurobank S.A.” (the Bank) was completed. Following the above, the corporate name of the Demerged Entity has been amended to “Eurobank Ergasias Services and Holdings S.A.” (the Company or Eurobank Holdings) (note 34).

2. Basis of preparation and principal accounting policies

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by IASB, as endorsed by the European Union (EU), and with those IFRSs and IFRS Interpretation Committee’s (IC) interpretations, issued and effective or issued and early adopted as at the time of preparing these financial statements.

The financial statements have been prepared under historical cost convention as modified by:

- the revaluation of financial assets measured at fair value through other comprehensive income (FVOCI) and of financial assets and financial liabilities (including derivative instruments) at fair-value-through-profit-or-loss;
- land and buildings for own use - measured at fair value through other comprehensive income;
- investment property - measured at fair-value-through-profit-or-loss;
- repossessed collaterals – measured at the lower of cost and net realizable value;
- retirement benefit obligations – measured at present value of the retirement benefit obligation;
- assets acquired and liabilities assumed at merger – measured at fair value.

Going concern assessment

The Management board of the Bank, acknowledging the risks of the Covid-19 outbreak to the economy and the banking system and taking into account factors relating to (a) the measures adopted by the Bulgarian and European authorities to mitigate the negative economic impact, (b) the Bank’s pre-provision income generating capacity and the adequacy of its capital and liquidity position and (c) the continuing Bank’s NPE reduction plan, has been satisfied that the financial statements of the Bank can be prepared on a going concern basis.

Use of judgments and estimates

The preparation of the financial statements in conformity with IFRS requires the use of estimates and judgements, described in section 3. Critical accounting estimates and judgments in applying accounting policies that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The significant estimates, judgments and assumptions made by Management are the same as those applied in the financial statements for the year ended 31 December 2019, except for those that relate to the impact of the Covid-19 pandemic to the estimation of the expected credit losses (ECL) on loans and advances to customers.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2. Basis of preparation and principal accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations

The following new standards, amendments to standards and Conceptual Framework as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), apply from 1 January 2020:

Amendments to the Conceptual Framework for Financial Reporting, including amendments to references to the Conceptual Framework in IFRS Standards

In March 2018, the IASB issued its revised "Conceptual Framework for Financial Reporting" (Conceptual Framework). The revised Conceptual Framework is not a standard nor overrides any requirements of individual standards. This replaces the previous version of the Conceptual Framework issued in 2010. Revisions performed by IASB introduced guidance on measurement, presentation and disclosure as well as on derecognition concepts. In addition, the revision includes updated definitions of an asset/liability and of recognition criteria, as well as clarifications on important areas.

Alongside the revised Conceptual Framework, the IASB has published an accompanying document "Amendments to References to the Conceptual Framework in IFRS Standards" which contains consequential amendments to affected standards so that they refer to the revised Framework. The adoption of the amended Framework had no impact on the Bank's financial statements.

Interest Rate Benchmark Reform - Phase 1: Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued amendments to IFRS 9 'Financial Instruments', IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" to address the implications for certain hedge accounting requirements related to the uncertainties arising from the market-wide reform of several interest rate benchmarks (referred to as 'IBOR reform'). As a result of the IBOR reform, there may be uncertainties about: a) the interest rate benchmark designated as a hedged risk and/or b) the timing or amount of the benchmark rate-based cash flows of the hedged item or the hedging instrument, during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate ('RFR'). The amendments modify certain hedge accounting requirements under IAS 39 or IFRS 9 in order to provide temporary reliefs from the potential effect of the uncertainty, during the transition period. These reliefs are related mainly to the highly probable requirement for the cash flow hedges, the compliance with the identifiable nature of the hedged risk component and the application of prospective and retrospective effectiveness tests. The amendments to IFRS 7 require addition disclosures in relation to the hedging relationships to which the above reliefs are applied.

The IASB addresses the IBOR reform and its potential effects on financial reporting in two phases. The first phase focuses on hedge accounting issues affecting financial reporting in the period before the interest rate benchmark reform, while the second phase, effective from 1 January 2021, focuses on issues that might affect financial reporting once the existing rates are replaced with alternative rates.

The adoption of the first phase related to hedge accounting has no impact on the Bank's financial statements, as the Bank does not have hedge accounting exposures priced at the interest rate benchmarks to be replaced. The Bank will continue to monitor the market developments and regulatory guidance relating to the IBOR Reform and adjust its implementation plans accordingly in order to achieve mitigation of the risks resulting from the transition.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Bank does not have significant exposure to IBORs on its financial instruments that will be reformed as part of this market-wide initiative. The Bank's IBOR exposures on floating-rate loans and advances to customers include Euribor throughout its operations and as the reform of Euribor is now complete and consisted of a change to the underlying calculation methodology. The Bank will not be significantly affected by the reform.

The adoption of the amendment will not have significant impact on the Bank's financial statements.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2. Basis of preparation and principal accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

Amendments to IFRS 3 Business Combinations

The IASB issued amendments to the definition of a business in IFRS 3 "Business Combinations" to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing inputs or processes and add guidance to help entities assess whether an acquired process is substantive. In addition, with the introduction of the amendments the definitions of a business and of outputs are narrowed, while an optional fair value concentration test is introduced.

The adoption of the amendment had no impact on the Bank's financial statements.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" aim to align the definition of 'material' across the standards and to clarify certain aspects of the definition. According to the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information, or both, while an entity should assess whether information is material on its own or when combined with other information.
The definition of material in the Conceptual Framework was also amended in order to align with the revised definition in IAS 1 and IAS 8.

The adoption of the amendment had no impact on the Bank's financial statements.

Amendment to IFRS 16 - Covid-19-Related Rent Concessions

In May 2020, the IASB issued "Covid-19-Related Rent Concessions (Amendment to IFRS 16 - Leases)" that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of Covid-19, by introducing a practical expedient to IFRS 16 "Leases". The practical expedient permits lessees not to assess whether a Covid-19-related rent concession is a lease modification and requires lessees that apply the above exemption to account for Covid-19-related rent concessions as if they were not lease modifications.

The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 and only if all of the following conditions are met:
a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
c) There is no substantive change to other terms and conditions of the lease.
The amendment to IFRS 16, as endorsed by the EU in October 2020, is effective for the annual reporting periods beginning on or after 1 June 2020 with earlier application permitted.
The Bank has early adopted the practical expedient to all rent concessions that meet the above described conditions.

Rent concessions granted to the Bank as a lessee up to 31 December 2020, as direct consequence of the Covid-19 pandemic, amount to BGN 1,852 thousand and have been recognized in "Other operating income" (Note 8).

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2. Basis of preparation and principal accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

New standards, amendments to standards and interpretations not yet adopted by the Bank

A number of new standards and amendments to existing standards are effective after 2020, as they have not yet been endorsed by the European Union, or have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

IAS 1, Amendments, Classification of Liabilities as Current or Non-Current (effective 1 January 2023, not yet endorsed by EU)

The amendments affect only the presentation of liabilities in the statement of financial position and provide clarifications over the definition of the right to defer the settlement of a liability, while they make clear that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. In addition, it is clarified that the assessment for liabilities classification made at the end of the reporting period is not affected by the expectations about whether an entity will exercise its right to defer settlement of a liability. The Board also clarified that when classifying liabilities as current or non-current, a entity can ignore only those conversion options that are recognised as equity.

The adoption of the amendments is not expected to impact the Bank's financial statements.

IFRS 17, Insurance Contracts (effective 1 January 2023, not yet endorsed by EU)

IFRS 17, which supersedes IFRS 4 'Insurance Contracts' provides a comprehensive and consistent accounting model for insurance contracts. It applies to insurance contracts issued, all reinsurance contracts and to investment contracts with discretionary participating features provided that the entity also issues insurance contracts. Financial guarantee contracts are allowed to be within the scope of IFRS 17 if the entity has previously asserted that it regarded them as insurance contracts.

According to IFRS 17 general model, groups of insurance contracts which are managed together and are subject to similar risks, are measured based on building blocks of discounted, probability-weighted estimates of future cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contracts. Under the model, estimates are remeasured in each reporting period. A simplified measurement approach may be used if it is expected that doing so a reasonable approximation of the general model is produced or if the contracts are of short duration.

Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides during the period, claims are presented when incurred and any investment components i.e amounts repaid to policyholders even if the insured event does not occur, are not included in revenue and claims. Insurance services results are presented separately from the insurance finance income or expense.

In June 2020, the IASB issued Amendments to IFRS 17 to assist entities in its implementation. The amendments included the deferral of the effective date, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2023.
IFRS 17 is not relevant to the Bank's activities.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2. Basis of preparation and principal accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective 1 January 2021)

In August 2020, the IASB issued "Interest Rate Benchmark Reform: Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16", which addresses issues that affect financial reporting once an existing rate is replaced with an alternative rate (RFR) and provides specific disclosure requirements. The Phase 2 Amendments provide key reliefs related to contractual modifications due to the reform and to the hedging relationships affected by the reform.

More specifically, the amendments introduce a practical expedient if a contractual change, or changes to cash flows, result "directly" from IBOR reform and occurs on an 'economically equivalent' basis. In these cases, changes will be accounted for by updating the effective interest rate, similar to changes to a floating interest rate. A similar practical expedient will apply under IFRS 16 Leases for lessees when accounting for lease modifications required by IBOR reform.

In addition, the Phase 2 amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentations without the hedging relationship being discontinued. Permitted changes include redefining the hedged risk to reference an RFR as well as redefining the description of the hedging instruments and/or the hedged items to reflect RFR.

Based on the Phase 2 amendments, when performing a retrospective hedge effectiveness assessment under IAS 39, a company may elect to reset the cumulative fair value changes of the hedged item and hedging instrument to zero immediately after ceasing to apply the Phase 1 relief on a hedge-by-hedge basis. However, actual hedge ineffectiveness will continue to be measured and recognized in full in profit or loss. The Phase 2 amendments also clarify that changes to the method for assessing hedge ineffectiveness due to modifications required by the IBOR reform, will not result to the discontinuation of hedge accounting.

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.

Consequential amendments were made by the Phase 2 Amendments to IFRS 7, 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.

With regards to the Phase 2, the Bank has an Action Plan setting out the actions to be taken in the event that a benchmark materially changes or ceases to be provided. The plan is in place since 2018 when SOFIBOR/SOFIBID benchmark rates applicable for BGN transactions ceased to exist.

The Bank has limited exposures to instruments priced at USD, CHF or GBP Libor and no material impact is expected on the Bank's financial statements.

Annual improvement to IFRSs 2018-2020 cycle: IFRS1, IFRS9 and IFRS 16 (effective 1 January 2022, not yet endorsed by EU)

The improvements introduce changes to several standards. The amendments that are relevant to the Bank's activities are set out below:

The amendments to IFRS 1 *'First-time Adoption of International Financial Reporting Standards'* provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2. Basis of preparation and principal accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

The amendment to IFRS 9 '*Financial Instruments'* clarifies which fees should be included in the 10% test for derecognition of financial liabilities, The fees to be included in the assessment are only those paid or received between the borrower (entity) and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.
The amendment to IFRS 16 '*Leases*' removes the illustration of the reimbursement of leasehold improvements, in order to avoid any potential confusion about the treatment of lease incentives.
The adoption of the amendments is not expected to impact Bank's financial statements.

IFRS 4, Amendment, Deferral of IFRS 9 (effective 1 January 2023)
In June 2020, the IASB issued *Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)* that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023, in order to align the effective dates of IFRS 9 Financial Instruments with IFRS 17 Insurance Contracts.

The amendment is not relevant to the Bank's activities.

IAS 37, Amendment, Onerous Contracts – Costs of Fulfilling a Contract (effective 1 January 2022, not yet endorsed by EU)

The amendment to IAS 37 *'Provisions, Contingent Liabilities and Contingent Assets'* clarifies that the direct costs of fulfilling a contract include both the incremental costs and an allocation of other costs directly related to fulfilling contracts' activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.
The adoption of the amendment is not expected to impact Bank's financial statements.

IFRS 3, Amendments, Reference to the Conceptual Framework (effective 1 January 2022, not yet endorsed by EU)

The amendments to IFRS 3 'Business Combinations' updated the reference to the current version of Conceptual Framework while added a requirement that, for obligations within the scope of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.
In addition, the issued amendments added a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition in a business combination at the acquisition date.
The adoption of the amendments is not expected to impact Bank's financial statements.

IAS 8, Amendments, Definition of Accounting Estimates (effective 1 January 2023, not yet endorsed by EU)

The amendments in IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" introduced the definition of accounting estimates and include other amendments to IAS 8 which are intended to help entities distinguish changes in accounting estimates from changes in accounting policies.

Notes to the financial statements (continued)

2. Basis of preparation and principal accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

The amendments clarify (a) how accounting policies and accounting estimates relate to each other by (i) explaining that accounting estimates are used in applying accounting policies and (ii) making the definition of accounting policies clearer and more concise, (b) that selecting an estimation technique, or valuation technique, used when an item in the financial statements cannot be measured with precision, constitutes making an accounting estimate, and (c) that, in applying IAS 2 Inventories, selecting the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy.

The adoption of the amendments is not expected to impact Bank‘s financial statements.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (effective 1 January 2023, not yet endorsed by EU)

IASB issued amendments to IAS 1 “Presentation of Financial Statements” to require entities to disclose their material accounting policies rather than their significant accounting policies.

According to IASB, accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Furthermore, the amendments clarify how an entity can identify material accounting policy information, while provide examples of when accounting policy information is likely to be material. The amendment to IAS 1 also clarify that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment the Board has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2 Making Materiality Judgements to accounting policy disclosures, in order to support the amendments to IAS 1.

The adoption of the amendments is not expected to impact Bank‘s financial statements.

The policies set out below have been consistently applied to the years 2020 and 2019.

2.2 Principal accounting policy

2.2.1 Shares in subsidiary undertakings

Investments in subsidiaries, including investments acquired through common control transactions, are accounted at cost less any impairment losses. Cost is the fair value of the consideration given being the amount of cash or shares issued, or if that cannot be determined reliably, the consideration paid together with any directly attributable costs.

Business combinations

The Bank accounts for business combinations using the acquisition method when control is transferred to the Bank. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2. Basis of preparation and principal accounting policies (continued)

2.2 Principal accounting policy (continued)

2.2.1 Shares in subsidiary undertakings (continued)

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Merger

Mergers that involve the combination of the Bank with one or more of its related parties are accounted in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” with reference to the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework and comply with the IFRS general principles.

In such transactions, the Bank incorporates the acquired assets and liabilities of the merged subsidiary at their carrying amounts as of the date of the legal merger without any fair value adjustments. Any difference between the carrying amount of the investment in the merged subsidiary before the legal merger, and the carrying amount of net assets acquired is recognized in the Bank’s equity.

Transactions eliminated on merger

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity- accounted investees are eliminated against the investment to the extent of the Bank interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.2.2 Foreign currencies transactions

The Bank’s presentation currency is the Bulgarian Lev (BGN) being the functional currency of the primary economic environment in which the Bank operates (‘the functional currency’). Except otherwise indicated, financial information presented in Bulgarian Leva has been rounded to the nearest thousand.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the Central Bank’s exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at each reporting date and exchange differences are recognized in the income statement.

Non-monetary assets and liabilities are translated into the functional currency at the exchange rates prevailing at initial recognition, except for non-monetary items denominated in foreign currencies that are measured at fair value which are translated at the rate of exchange at the date the fair value is determined. The exchange differences relating to these items are treated as part of the change in fair value and are recognized in the income statement or recorded directly in equity depending on the classification of the non-monetary item.

At 31 December 2020, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2019: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.627408 (2019: BGN 1 for USD 0.574386).

2.2.3 Derivative financial instruments

Derivatives are financial instruments:

a) whose value is changed in response to changes in a specified interest rate, financial instrument price, foreign exchange rate, index of prices and rates, credit rates or credit index or other variable;

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2. Basis of preparation and principal accounting policies (continued)

2.2 Principal accounting policy (continued)

2.2.3 Derivative financial instruments (continued)

b) that require no initial net investment or an initial net investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
c) that are settled at a future date.

Derivative financial instruments including foreign exchange contracts, forward currency agreements, FX swaps, interest rate swaps and cross currency interest rate swaps, options and futures are initially recognized in the financial reports on the value/settlement date on which a derivative contract becomes effective.

Forward currency agreements, interest rate swaps (incl. cross currency interest rate swaps), options and futures are subsequently re-measured at their fair value at the end of each reporting month. They are carried as assets when fair value is positive and as liabilities when fair value is negative. Usually the net investment is zero (i.e. the initial net fair value of the receivables and payables is zero). Their fair values are determined based on quoted market prices, including recent market transactions, or by using other valuation techniques, as appropriate. The changes in the fair value of these derivatives are included in the income statement. The principles for the fair value measurement of financial instruments, including derivative financial instruments, are described in note 2.2.14 Fair value measurement of financial assets.

With respect to the treatment of FX swaps, they are subsequently not revalued – the contractual commitments for exchange of notionals at maturity is accounted as off-balance asset and liability respectively and the implied interest differential is accrued (amortized) on the income statement as interest income/expense.

Financial assets that contain embedded derivatives are recognised in the balance sheet in their entirety in the appropriate classification category, following instruments' assessment of their contractual cash flows and their business model as described in note 2.2.10. In addition, certain derivatives, embedded in financial liabilities, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement.

Hedge accounting

The Bank has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39, until the project of accounting of macro hedging activities is completed by the IASB.

For hedge accounting purposes, the Bank forms a hedging relationship between a hedging instrument and a related item or group of items to be hedged. A hedging instrument is a designated derivative or a designated non-derivative financial asset or financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.
Specifically, the Bank designates certain derivatives as: hedges of the exposure to changes in fair value of recognized assets or liabilities or unrecognized firm commitments (fair value hedge).
In order to implement hedge accounting, specified criteria should be met. Accordingly, at the inception of the hedge accounting relationship, the Bank documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions, together with the method that will be used to assess the effectiveness of the hedging relationship.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.3 Derivative financial instruments and hedging (continued)

The Bank also documents its assessment, both at inception of the hedge and on an ongoing basis, an assessment of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items and whether the actual results of each hedge are within a range of 80-125%. If a relationship does not meet the abovementioned hedge effectiveness criteria, the Bank discontinues hedge accounting prospectively. Similarly, if the hedging derivative expires or is sold, terminated or exercised, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In addition, the Bank uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure primarily to interest rate and foreign currency risks. Non qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied. The said derivative instruments are classified along with those held for trading purposes.

The method of recognizing the resulting fair value gain or loss depends on whether the derivatives are designated and qualify as hedging instruments, and if so, the nature of the item being hedged.

Furthermore, the Bank may designate groups of items as hedged items, by aggregating recognized assets or liabilities or unrecognized but highly probable transactions of similar risk characteristics that share the exposure for which they are hedged. Although the overall risk exposures may be different for the individual items in the group, the specific risk being hedged will be inherent in each of the items in the group.

(i) Fair value hedge

The Bank applies fair value hedging to hedge exposures primarily to changes in the fair value attributable to interest rate risk and currency risk.

The interest rate and currency risk with respect to the applicable benchmark rate may be hedged using interest rate swaps and cross currency swaps.

The Bank uses the dollar-offset method in order to assess the effectiveness of fair value hedges. This is a quantitative method that involves the comparison of the change in the fair value of the hedging instrument with the change in the fair value of the hedged item attributable to the hedged risk. Even if a hedge is not expected to be highly effective in a particular period, hedge accounting is not precluded if effectiveness is expected to remain sufficiently high over the life of the hedge.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk. The Bank discontinues hedge accounting in case the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the qualifying criteria for hedge accounting, or designation is revoked. In such cases, any adjustment to the carrying amount of the hedged item, for which the effective interest method is applied, is amortized to profit or loss over the period to maturity. Hedge ineffectiveness may arise in case of potential differences in the critical terms between the hedged item and the hedging instrument such as maturity, interest rate reset frequency and discount curves.

(ii) Derivatives that are not designated as hedging instruments

Changes in the fair value of derivative financial instruments that are not designated as a hedging instrument or do not qualify for hedge accounting are recognized in the income statement.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in note 25.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.4 Income Statement

(i) Interest income and expense

Interest income and expense is recognized in the income statement for all interest bearing financial instruments on an accrual basis, using the effective interest rate (EIR) method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of the financial asset or to the amortized cost of a financial liability. When calculating the EIR for financial instruments other than purchased or originated credit-impaired (POCI), the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses. For POCI financial assets, the credit-adjusted EIR is used, which is the interest rate that upon the original recognition of the POCI financial asset discounts the estimated future cash flows (including expected credit losses) to the fair value of the POCI asset.

The amortized cost of a financial asset or liability is the amount at which it is measured upon initial recognition minus principal repayments, plus or minus cumulative amortization using the EIR (as described above) and for financial assets only adjusted for the expected credit loss allowance, while the gross carrying amount of a financial asset is its amortized cost before adjusting for ECL allowance.

The EIR calculation includes all fees and points paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

The Bank calculates interest income and expense by applying the EIR to the gross carrying amount of non-impaired financial assets (exposures in Stage 1 and 2) or to the amortized cost of financial liabilities respectively.

For financial assets that have become credit-impaired subsequent to initial recognition (exposures in Stage 3), the Bank calculates interest income by applying the effective interest rate to the amortized cost of the financial asset (i.e. gross carrying amount adjusted for the expected credit loss allowance). If the asset is no longer credit-impaired, then the EIR is applied again to the gross carrying amount.

For financial assets that were credit-impaired on initial recognition (POCI) interest income is calculated by applying the credit-adjusted EIR (calculated as described above) to the POCI financial asset’s amortized cost. For such assets even if the credit risk improves, interest income does not revert to gross basis calculation.

Interest income for all debt instruments is recognised in the income statement and are presented in the income statement line of net interest income.

(ii) Fees and commissions

Fee and commission received or paid that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income such as account servicing and asset management fees (including performance based fees) is recognised as the related services are being provided to the customer, to the extent that it is highly probable that a significant reversal of the revenue amount recognized will not occur. Transaction-based fees such as foreign exchange transactions, imports-exports, remittances, bank charges and brokerage activities are recognised at the point in time when the transaction takes place. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

In the case of a contract with a customer that results in the recognition of a financial instrument in the Bank’s financial statements which may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15, the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and subsequently applies IFRS 15 to the residual part.

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.5 Net trading income

Net trading income comprises gains and losses related to derivative financial instruments (Hedging and Non-Hedging). All changes in fair value of financial assets at fair value at profit and loss are recognized as part of the net trading income in the income statement.

2.2.6 Gains less losses from investment securities

Gains less losses from investment securities relate to results deriving from realized gains and losses of securities measured at FVTPL, results deriving from early liquidation of fair value hedging derivative financial instruments (termination fees and reversal of accruals since the last coupon date) associated with OCI bonds, realized gains and losses on sale of securities (bonds) at FVOCI.

2.2.7 Property, plant and equipment (PPE)

Property, plant and equipment are initially recognized at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and comprises purchase price, including import duties and non-refundable purchase taxes and any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost is the cash or cash equivalent paid or the fair value of other consideration given to acquire the assets. The minimal level for an expenditure to be recognized as an asset, adopted by the Bank, is 300 BGN.

Subsequent expenditure is recognized in the asset's carrying amount only when it is probable that future economic benefits will flow to the Bank and the cost of the asset can be measured reliably. All other repair and maintenance costs are recognized in the income statement as incurred.

After initial recognition the Bank measures the land and building at fair value. All other PPE classes are recognised at historical cost less accumulated depreciation and impairment losses.

The fair value of land and buildings is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. The main valuation methods include:

- market prices analogues (where assets are compared to those similar of nature offered on the market)
- present value of future income for rent generating assets (DCF)
- method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

Revaluation of property is performed on an annual basis.

At the date of revaluation, the net amount of the asset is restated to its revalued amount by adjusting its accumulated depreciation, in cases where the accumulated depreciation balance is less than the upward revaluation effect, the gross carrying amount is adjusted with the difference.

If an asset's carrying amount is increased as a result of a revaluation, the increase, net of tax, is recognised in other comprehensive income and accumulated as Property revaluation reserve in shareholder's equity. However the increase shall be recognised in the income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement.

If an asset's carrying amount is decreased as a result of revaluation, the decrease is recognised firstly in other comprehensive income by reducing the revaluation surplus and subsequently in the income statement if credit balances in revaluation surplus are not sufficient.

With the exception of the land, the Bank depreciates all PPE. The depreciation charge is calculated using the straight-line method to write down the cost of PPE to their residual values over their estimated useful lives, as follows:

- Buildings – up to 50 years
- Leasehold improvements – the useful life of the lease
- Computer hardware - 4-10 years
- Other furniture and equipment - 3-20 years
- Motor vehicles- 5 years

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.7 Property, plant and equipment (PPE) (continued)

The carrying amount of an item of property, plant and equipment is derecognised:
(a) on disposal
(b) when no future economic benefits are expected from its use or disposal.

The gain or loss from derecognition of an item of PPE is included in the income statement when the item is derecognised. The gain or loss from derecognition of an item of PPE is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. PPE are assessed for indications of impairment at each reporting date. When events or changes in circumstances indicate that the carrying amount may not be recoverable, an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

2.2.8 Intangible assets

Intangible assets acquired by the Bank are measured at cost less accumulated amortisation and any accumulated impairment losses.

Costs that are directly associated with identifiable non-monetary asset without physical substance controlled by the Bank and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Expenditure which enhances or extends the performance of intangible assets beyond their original specifications is recognised as a capital improvement and added to the original costs of the asset. Costs associated with maintaining intangible assets are recognised as an expense as incurred.

Costs incurred in internal development of intangible assets when meet the recognition criterion is recognized as intangible asset. The cost of development activities is capitalised when it is probable that the Bank will obtain economic benefits from the use of the asset and the cost can be reliably measured.

The costs recognised (Note 22) include the employment costs of those directly involved in creating the asset, and may include some other costs (costs of materials and services used or consumed in generating the asset, legal fees, registration fees, etc).
Intangible assets are amortized using the straight-line method over their useful lives, as follows:

- Computer software- 5-15 years
- Licenses - 5-15 years
- Other intangible assets- 5-15 years

Intangible assets include software, licenses, internally developed and other intangible assets that are separable or arise from contractual or other legal rights.
Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An intangible asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.2.9 Investment property

Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.9 Investment property (continued)

Investment property is measured initially at its cost, including related transaction costs. Under fair value model of IAS 40 "Investment property" after initial recognition, investment property is carried at fair value as determined by independent certified valuers, with any change therein recognized in income statement as part of other income/expense.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Repairs and maintenance costs are recognized to the income statement during the financial period in which they are incurred.

Investment property is derecognised when disposed or when it is permanently withdrawn from use and there is no future economic benefit expected from its disposal. Any arising gain or loss (calculated as the difference between the net proceeds from disposal and the carrying amount of the asset) is recognized in income statement.

2.2.10 Financial assets

Financial assets - Classification and measurement

The Bank classifies financial assets based on the business model for managing those assets and their contractual cash flow characteristics. Accordingly, financial assets are classified into one of the following measurement categories: amortized cost, fair value through other comprehensive income or fair value through profit and loss.Purchases and sales of financial assets are recognized on settlement date, which is the date the Bank commits to purchase or sell the assets. Loans originated by the Bank are recognized when cash is advanced to the borrowers. Receivables from customers are initially measured at the transaction price.

Financial Assets measured at Amortized Cost ("AC")

The Bank classifies and measures a financial asset at AC only if both of the following conditions are met:

(a) The financial asset is held within a business model whose objective is to collect contractual cash flows (hold-to-collect business model) and

(b) 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 (SPPI).
These financial assets are recognized initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate (EIR) method.
Interest income, realized gains and losses on derecognition, and changes in credit impairment losses from assets classified at AC, are included in the income statement.

Financial Assets measured at Fair Value through Other Comprehensive Income ("FVOCI")

The Bank classifies and measures a financial asset at FVOCI only if both of the following conditions are met:
(a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold-to-collect-and-sell business model) and
(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Financial assets that meet these criteria are debt instruments and are measured initially at fair value, plus direct and incremental transaction costs.
Subsequent to initial recognition, FVOCI debt instruments are re-measured at fair value through OCI, except for interest income, related foreign exchange gains or losses and credit impairment losses, which are recognized in the income statement. Cumulative gains and losses previously recognized in OCI are transferred from OCI to the income statement when the debt instrument is derecognised.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.10 Financial assets (continued)

Equity Instruments designated at FVOCI

The Bank may make an irrevocable election to designate an equity instrument at FVOCI. This designation, if elected, is made at initial recognition and on an instrument by instrument basis. Gains and losses on these instruments, including when derecognized, are recorded in OCI and are not subsequently reclassified to the income statement. Dividends received are recorded in the income statement. The Bank has no equity instruments designated at FVOCI.

Financial Assets measured at Fair Value through Profit and Loss (“FVTPL”)

The Bank classifies and measures all other financial assets that are not classified at AC or FVOCI, at FVTPL. Accordingly, this measurement category includes debt instruments such as loans and debt securities that are held within the hold–to-collect (HTC) or hold-to-collect-and-sell models (HTCS), but fail the SPPI assessment, equities that are not designated at FVOCI, financial assets held for trading and derivative financial instruments.

Furthermore, a financial asset that meets the above conditions to be classified at AC or FVOCI, may be irrevocably designated by the Bank at FVTPL at initial recognition, if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise.
Financial assets measured at FVTPL are initially recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in the income statement.

Business model and contractual characteristics assessment

The business model assessment determines how the Bank manages a group of assets to generate cash flows. That is, whether the Bank's objective is solely to collect contractual cash flows from the asset, to realize cash flows from the sale of assets, or both to collect contractual cash flows and cash flows from the sale of assets. In addition, the business model is determined after aggregating the financial assets into groups (business lines) which managed similarly rather than at an individual instrument’s level.

The business model is determined by the Bank’s key management personnel consistently with the operating model, considering how financial assets are managed in order to generate cash flows, the objectives and how performance of each portfolio is monitored and reported and any available information on past sales and on future sales’ strategy, where applicable.

Accordingly, in making the above assessment, the Bank will consider a number of factors including the risks associated with the performance of the business model and how those risks are evaluated and managed, the related personnel compensation, and the frequency, volume and reasons of past sales, as well as expectations about future sales activity.

Types of business models

The Bank’s business models fall into three categories, which are indicative of the key strategies used to generate returns.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.10 Financial assets (continued)

The hold-to-collect (HTC) business model has the objective to hold the financial assets in order to collect contractual cash flows. Sales within this model are monitored and may be performed for reasons which are not inconsistent with this business model. More specifically, sales of financial assets due to credit deterioration, as well as, sales close to the maturity are considered consistent with the objective of hold-to-collect contractual cash flows regardless of value and frequency. Sales for other reasons may be consistent with the HTC model such as liquidity needs in any stress case scenario or sales made to manage high concentration level of credit risk. Such sales are monitored and assessed depending on frequency and value to conclude whether they are consistent with the HTC model.

Financial assets classified within this business model include cash and cash equivalents, bonds, due from banks and loans and advances to customers which are measured at amortized cost, subject to meeting the SPPI assessment criteria.

The hold-to-collect-and-sell business model (HTC&S) has the objective both to collect contractual cash flows and sell the assets. Activities such as liquidity management, interest yield and duration are consistent with this business model, while sales of assets are integral to achieving the objectives of this business model. Debt instruments classified within this business model include investment securities which are measured at FVOCI, subject to meeting the SPPI assessment criteria.

Other business models include financial assets which are managed and evaluated on a fair value basis as well as portfolios that are held for trading. This is a residual category for financial assets not meeting the criteria of the business models of HTC or HTC&S, while the collection of contractual cash flows may be incidental to achieving the business models' objective.

The Bank's business models are reassessed at least annually or earlier, if there is a sales' assessment trigger or if there are any changes in the Bank's strategy and main activities, as evidenced by the Bank's business plan, budget and Non-performing exposures (NPE) strategy.

Cash flow characteristics assessment

For a financial instrument to be measured at AC or FVOCI, its contractual terms must give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

In assessing whether the contractual cash flows are SPPI, the Bank will consider whether the contractual terms of the instrument are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin. On the initial recognition of a financial asset, an assessment is performed of whether the asset contains a contractual

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.10 Financial assets (continued)

Cash flow characteristics assessment (continued)

term that could change the amount or timing of contractual cash flows in a way that it would not be consistent with the above condition. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is considered to have failed the SPPI assessment and will be measured at FVTPL.

For the purpose of the SPPI assessment, the Bank considers the existence of various features, including among others, contractually linked terms, prepayment terms, deferred interest-free payments, extension and equity conversion options and terms that introduce leverage including index linked payments.

In case of special lending arrangements such as non-recourse loans, the Bank in its assessment of the SPPI criterion considers various factors such as the nature of the borrower and its business, the pricing of the loans, whether it participates in the economic performance of the underlying asset and the extent to which the collateral represents all or a substantial portion of the borrower's assets.
In certain cases when the time value of money element is modified in that the financial asset's interest rate is periodically reset but the reset frequency does not match the tenor of the interest rate or when a financial asset's interest rate is periodically reset to an average of particular short-term and long-term interest rates, a quantitative assessment is performed ("Benchmark Test") in order to determine whether the contractual cash flows are SPPI.
In particular, the Bank assesses the contractual cash flows of the "real instrument" (RI), whose interest rate is reset with a frequency that does not match the tenor of the interest rate, and those of the "benchmark instrument" (BI), which are identical in all respects except that the tenor of the interest rate matches exactly the interest period. If the undiscounted cash flows of the former are significantly different from the benchmark cash flows due to the modified time value of money element, the financial asset does not meet the SPPI criterion, and therefore, cannot be measured at amortized cost or at fair value through other comprehensive income. In its assessment, the Bank considers both the effect of the modified time value of money element in each reporting period and cumulatively over the life of the instrument. This is done, as far as the lifetime of the instrument is concerned, by comparing the cumulative projected undiscounted cash flows of the RI and the BI.

In addition, for the purposes of the SPPI assessment, if a contractual feature could have an effect that is de-minimis or not genuine, it does not affect the classification of the financial asset. A contractual feature does not affect the classification of the financial assets if it could have only a de-minimis effect on the contractual cash flows of the financial asset. Moreover, a contractual feature is considered as not genuine by the Bank, if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.
The Bank performs the SPPI assessment for its lending exposures on a product basis for the retail and part of the wholesale portfolio where contracts are of standardized form, whereas for the remaining wholesale portfolio the assessment is performed on an individual basis.

The SPPI assessment of debt securities is performed centrally by the Group using an automated solution, at origination and acquisition dates, respectively, by taking into consideration features that introduce variability in the contractual cash flows of a financial instrument which may not result in solely payments of principal and interest.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.10 Financial assets (continued)

Derecognition of Financial asset

The Bank derecognizes a financial asset when its contractual cash flows expire, or the rights to receive those cash flows are transferred in an outright sale in which substantially all risks and rewards of ownership have been transferred. In addition, a financial asset is derecognized even if rights to receive cash flows are retained but at the same time the Bank assumes an obligation to pay the received cash flows without a material delay (pass through agreement) or when substantially all the risks and rewards are neither transferred nor retained but the Bank has transferred control of the asset. The control is considered to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to unrelated third party. On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI for financial assets at FVOCI, is recognized in income statement. The Bank may modify the contractual terms of a financial asset either as a concession granted to a client facing or that is about to face financial difficulties or due to other commercial reasons such as changes in market conditions, competition or customer retention.

In cases where the contractual cash flows of a financial asset have been modified and the modification is considered substantial enough, the original financial asset is then derecognized. The Bank records the modified asset as a 'new' financial asset at fair value and the difference with the net carrying amount of the existing one is recorded in the income statement as de-recognition gain or loss.

Modifications that may result in de-recognition include:
- change in borrower;
- change in the currency that the lending exposure is denominated;
- debt consolidation features where two or more consumer unsecured lending contracts are consolidated into a single new secured lending agreement;
- the removal or addition of conversion features and/or profit sharing mechanisms and similar terms which are relevant to the SPPI assessment;
- any other changes that cause the terms under the modified contract to differ substantially from those under the old contract (e.g. a new term due to which the loan cannot be considered a basic lending arrangement).

2.2.11 Reclassifications of financial assets

The Bank reclassifies a financial asset only when it changes its business model for managing financial assets. Generally, a change in the business model is expected to be rare and occurs when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when a business line is acquired, disposed of or terminated. In the rare event when there is a change to the existing business models, the updated assessment is approved by the Bank's competent Committees and the amendment is reflected appropriately in the Bank's budget and business plan.
Changes in intention related to particular financial assets (even in circumstances of significant changes in market conditions), the temporary disappearance of a particular market for financial assets or a transfer of financial assets between parts of the Bank with different business models, are not considered by the Bank changes in business model.

The reclassification is applied prospectively from the reclassification date, therefore previously recognized gains, losses (including impairment losses) or interest are not restated.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.12 Financial liabilities

Classification and measurement

The Bank may classify its financial liabilities in the following categories: financial liabilities measured at amortized cost and financial liabilities at fair-value-through-profit-or-loss.
Financial liabilities at fair-value-through-profit-or-loss comprise two sub categories: financial liabilities held for trading and financial liabilities designated at fair-value-through-profit-or-loss upon initial recognition.
Financial liabilities held for trading are those liabilities that the Bank incurs principally for the purpose of repurchasing in the near term for short term profit.

The Bank may, at initial recognition, irrevocably designate financial liabilities at fair-value-through-profit-or-loss when one of the following criteria is met:

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or
- the financial liability contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial liabilities at FVTPL are initially recognized at fair value. Changes in fair value are recognized in the income statement, except for changes in fair value attributable to changes in the Bank's own credit risk, which are recognised in OCI and are not subsequently reclassified to the income statement upon derecognition of the liabilities. However, if such treatment creates or enlarges an accounting mismatch in the income statement, all gains or losses of this financial liability, including the effects of changes in the credit risk, are recognized in the income statement.
As of the end of 2020 the Bank classifies all its financial liabilities at amortized cost.

De-recognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability of the Bank is replaced by another from the same counterparty on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as an extinguishment of the original liability and the recognition of a new liability and any difference arising is recognized in the income statement.

The Bank considers the terms to be substantially different, if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when and only when there is a legally enforceable right to set off the recognised amounts and there is an intention either to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.2.14 Fair value measurement of financial instruments

Fair value of financial instruments 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 under current market conditions in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses other valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Bank has elected to use mid-market pricing as a practical expedient for fair value measurements within a bid-ask spread.The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received unless the Bank determines that the fair value at initial recognition differs from the transaction price. In this case, if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique
that uses only data from observable markets, a day one gain or loss is recognized in the income statement. On the other hand, if the fair value is evidenced by a valuation technique that uses unobservable inputs, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price (day one gain or loss). Subsequently the deferred gain or loss is amortized on an appropriate basis over the life of the instrument or released earlier if a quoted price in an active market or observable market data become available or the financial instrument is closed out.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole (note 5.3).For assets and liabilities that are measured at fair value on a recurring basis, the Bank recognizes transfers into and out of the fair value hierarchy levels annually for the year in which a financial instrument's transfer was effected.

2.2.15 Impairment of financial assets

Impairment of financial assets

The Bank recognizes allowance for expected credit losses (ECL) that reflect changes in credit quality since initial recognition to financial assets that are measured at AC and FVOCI, including loans, lease receivables, debt securities, financial guarantee contracts, and loan commitments. No ECL are recognized on equity investments.ECLs are a probability-weighted average estimate of credit losses that reflects the time value of money. Upon initial recognition of the financial instruments in scope of the impairment policy, the Bank records a loss allowance equal to 12-month ECL, being the ECL that result from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase
in credit risk (SICR) since initial recognition, a loss allowance equal to lifetime ECL is recognized, arising from default events that are possible over the expected life of the instrument. If upon initial recognition, the financial asset meets the definition of purchased or originated credit impaired (POCI), the loss allowance is based on the change in the ECL over the life of the asset.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL. For all other financial assets subject to impairment, the general three-stage approach applies.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Accordingly, ECLs are recognized using a three-stage approach based on the extent of credit deterioration since origination:

• Stage 1 – Under IFRS 9, if the credit risk on a lending exposure has not increased significantly at the reporting date in comparison to its origination date, the Bank should measure the loss allowance for that lending exposure at an amount equal to 12-month expected credit losses. The 12-month ECL represents a portion of lifetime ECL that results from default events on a financial instrument that are possible within the next 12 months after the reporting date and is equal to the expected cash shortfalls over the life of the lending exposure or group of lending exposures, due to loss events that could occur in the next 12 months from the reporting date. The lifetime cash shortfalls that will result if a default occurs in the next 12 months after the reporting date (or a shorter period if the expected life of a lending exposure is less than 12 months) is weighted by the probability of a default occurring (PD) in those next 12 months after the reporting date (or earlier, given a shorter tenor).

For lending exposures with a remaining maturity of less than one year, the 12M PD is applied. For debt securities with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used. Not credit-impaired financial assets that are either newly originated or purchased, as well as, assets recognized following a substantial modification accounted for as a de-recognition, are classified initially in Stage 1.

• Stage 2 – The Bank should recognize changes in 12-month ECL through the allowance and move lending exposures to lifetime ECL measurement, providing that there is a significant increase in credit risk of the exposure. The lifetime ECL are the expected credit losses that result from all possible default events over the expected life of a lending exposure (i.e. Stage 2, Stage 3) and POCI. Impairment losses are measured at lifetime ECLs if an instrument's credit risk at origination date has increased significantly since its recognition. If the credit risk of a lending exposure has not increased significantly on a subsequent period, then the Bank reverses the measurement of the impairment allowances from lifetime ECL to 12-month ECL.

• Stage 3 – Financial instruments that are considered to be credit impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

• Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. ECL are only recognized or released to the extent that there is a subsequent change in the assets' lifetime expected credit losses. POCI exposures are not subject to stage allocation as these exposures are credit impaired at the date of initial recognition by the Bank and are always measured on the basis of lifetime expected credit losses. Apart from purchased assets, POCI assets may also include financial instruments that are considered new assets, following a substantial modification accounted for as a de-recognition. Any subsequent favorable change to their expected cash flows are recognized as impairment gain in the income statement even if the resulting expected cash flows exceed the estimated cash flows at initial recognition.

Definition of default

To determine the risk of default, the Bank applies a default definition for accounting purposes, which is consistent with the European Banking Authority (EBA) definition for non-performing exposure (refer to note 5.2.1.2). The accounting definition of default is consistent with the one used for internal credit risk management reporting purposes.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Definition of default (continued)

A financial asset becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that exposure have occurred:

- The borrower faces a significant difficulty in meeting his financial obligations.
- There has been a breach of contract, such as a default or past due event.
- The Bank, for economic or contractual reasons relating to the borrower's financial difficulty, has granted to the borrower a concession(s) that the Bank would not otherwise consider.
- There is a probability that the borrower will enter bankruptcy or other financial re-organization.
- For POCI asset, a purchase at a deep discount that reflects incurred credit losses is considered a detrimental event. The Bank assesses the deep discount criterion following a principle -based approach with the aim to incorporate all reasonable and supportable information which reflects market conditions that exist at the time of the assessment.

Sovereign debt securities

For sovereign debt securities, the Bank determines the risk of default using an internal credit rating scale and considers them as credit impaired if the internal credit rating of the issuer/counterparty at the reporting date is equivalent to "C" (Moody's rating scale). Debt instruments with external rating equivalent to "C" are always considered impaired and carry the equivalent internal rating that presents default.

Significant increase in credit risk (SICR) and stage allocation

Determining whether a loss allowance should be based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk (SICR) of the financial assets, issued loan commitments and financial guarantee contracts, since initial recognition.

At each reporting date, the Bank performs an assessment as to whether the risk of a default occurring over the remaining expected lifetime of the exposure has increased significantly from the expected risk of a default estimated at origination for that point in time.
The assessment for SICR is performed using both qualitative and quantitative criteria based on reasonable and supportable information that is available without undue cost or effort including forward looking information and macroeconomic scenarios as well as historical experience. Furthermore, regardless of the outcome of the SICR assessment based on the above indicators, the credit risk of a financial asset is deemed to have increased significantly when contractual payments are more than 30 days past due.
As a primary criterion for SICR assessment, the Bank compares the residual lifetime probability of default (PD) at each reporting date to the residual lifetime PD for the same point in time which was expected at the origination.

The Bank may also consider as a SICR indicator when the residual lifetime PD at each reporting date exceeds certain predetermined values. The criterion may be applied in order to capture cases where the relative PD comparison does not result to the identification of SICR although the absolute value of PD is at levels which are considered high based on the Bank's risk appetite framework.

For a financial asset's risk, a threshold may be applied, normally reflected through the asset's forecasted PD, below which it is considered that no significant increase in credit risk compared to the asset's expected PD at origination date has taken place. In such a case the asset is classified at Stage 1 irrespectively of whether other criteria would trigger its classification at Stage 2. This criterion primarily applies to debt securities.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Significant increase in credit risk (SICR) and stage allocation (continued)

Internal credit risk rating (on a borrower basis) is also used as a basis for the identification of SICR with regards to lending exposures of the Wholesale portfolio. Specifically, the Bank takes into consideration the changes of internal ratings by a certain number of notches. In addition, a watchlist status is also considered by the Bank as a trigger for SICR identification. Internal credit risk ratings models include borrower specific information as well as, forward-looking information including macroeconomic variables.
Assessment of SICR for debt securities is performed on an individual basis based on the number of notches downgrade in the internal credit rating scale since the origination date.

Forbearance measures as monitored by the Bank are considered as a SICR indicator and thus the exposures are allocated into Stage 2 upon forbearance, unless they are considered credit-impaired in which case they are classified as stage 3. Furthermore, regardless of the outcome of the SICR assessment based on the above indicators, the credit risk of a financial asset is deemed to have increased significantly when contractual payments are more than 30 days past due.

Furthermore, Management may apply temporary collective adjustments when determining whether credit risk has increased significantly since initial recognition on exposures that share the same credit risk characteristics to reflect macro-economic or other factors which are not adequately addressed by the current credit risk models. These factors may depend on information such as the type of the exposure, counterparty's specific information and the characteristics of the financial instrument, while their application requires the application of significant judgment.

The Bank uses the below criteria in combination, where appropriate, for the purposes of identifying a significant increase in credit risk:

i. Residual lifetime PD comparison

The Bank considers a significant increase in credit risk (SICR) on a lending exposure when the "Current residual lifetime probability of default" at each reporting date (Current Residual Lifetime PD) is higher than the residual lifetime probability of default at same maturity point on the PD curve expected at the origination by a certain threshold (Residual Lifetime PD threshold).
In cases where the contractual cash flows on a lending exposure have been modified and the original lending exposure has been derecognized, the Bank uses the date of the substantial modification as the origination date of the new modified lending exposure for the purposes of the residual lifetime PD comparison. On the other hand, in cases where the modification is not substantial enough the comparison is performed between the risk of a default occurring at initial recognition (based on the original unmodified contractual terms) and the risk of a default occurring at the reporting date (based on the modified contractual terms).

ii. Forbearance

Concessions granted within the last 24 months to lending exposures as a result of financial difficulty of the borrower that otherwise would not have been considered by the Bank, are identified as associated with significant increase in credit risk SICR and thus allocated into Stage 2.

iii. Backstop indicators

The Bank applies the backstop criterion 30 days past due for the identification of SICR. In particular, lending exposures overdue for more than 30 days and below 90 days, are considered as associated with Significant Increase in Credit Risk and are classified into Stage 2.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Transfers from Stage 2 to Stage 1

A lending exposure, which is classified to Stage 2 due to Significant Increase in Credit Risk (SICR), is reclassified to Stage 1, as long as it does not meet anymore any of the aforementioned Stage 2 criteria.
Where forbearance measures have been applied in the past and the exposure has been categorized as Performing Forborne (PF) Exposure (either due to the application of forbearance measures to Performing exposures or a result of curing from Non – Performing Forborne status) , the following conditions should be met in order to qualify for a transfer back to Stage 1:

- The facility is considered to be performing, including where it has been reclassified from the non – performing category after an analysis of the financial condition of the borrower showed that it no longer met the conditions to be considered as non - performing;
- A minimum of two years' probation period has passed from the date the forborne exposure was considered to be performing;
- Regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period (i.e. one year);

Transfers from Stage 3 to Stage 2

A financial asset is transferred from Stage 3 to Stage 2, when the criteria based on which the financial asset was characterized as credit impaired, are no longer valid. Specifically the following criteria should be met:

- The exposure meets the exit criteria applied by the Bank for the discontinuation of the default classification;
- The situation of the debtor has improved to the extent that full repayment, according to the original or when applicable the modificed conditions, is likely to be made;
- The debtor does not have any material amount more than 90 days past due.

Where forbearance measures have been applied to Non – Performing Exposures, those exposures shall be considered to have ceased being Non – Performing and as such they shall be transferred back to Stage 2 where all of the following have been met:

- The application of forbearance measures does not lead to the recognition of impairment;
- One year has passed since the forbearance measures were applied;
- There is not, following the forbearance measures, any material past due amount or concern regarding the full repayment of the exposure according to the post – forbearance conditions. The absence of concerns is determined after an analysis of the debtor's financial situation by the Bank (usually in the context of an impairment test). Concerns are demonstrated as no longer existing where the borrower has paid, via its regular payments in accordance with the post – forbearance conditions, a total equal to the amount that was previously past - due (if any) or that has been written – off (where there are no past due amounts) under the forbearance measures or the borrower has otherwise demonstrated its ability to comply with the post-forbearance conditions.

Criteria for grouping of exposures based on shared credit risk characteristics

The Bank segments its lending exposures on the basis of shared credit risk characteristics for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to group lending exposures into homogenous pools in terms of estimated PDs and rates of recovery in the event of default.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

The shared credit risk characteristics used for the segmentation of lending exposures include the following:

- Instrument type (e.g. lending exposures, debt instruments etc.);
- Portfolio type (e.g. retail, wholesale etc.);
- Observed credit history (i.e. characteristics based on the debt service behavior of borrowers recorded in the Bank's books);
- Asset class (e.g. mortgages, consumer loans, SBBs, large corporate, SMEs etc.);
- Product type (e.g. revolving credit facilities, personal loans, debt consolidation etc.);
- Credit risk rating (i.e. segmentation per rating band);
- Date of initial recognition (i.e. segmentation per vintage);
- Remaining term to maturity (i.e. segmentation based on remaining tenor).

Lending exposures are allocated into groups based on shared credit risk characteristics upon initial recognition. On subsequent periods, the Bank re-evaluates the grouping of its exposures at least on an annual basis, in order to ensure that the groups remain homogeneous in terms of their response to the identified shared credit risk characteristics, and the exposures are re-segmented in the case where relevant new information becomes available in respect to the credit risk associated with the particular exposures or when there is a change on management's perception compared to the initial recognition.

Measurement of Expected Credit Losses

The measurement of ECL is an unbiased probability-weighted average estimate of credit losses that reflects the time value of money, determined by evaluating a range of possible outcomes. A credit loss is the difference between the cash flows that are due to the Bank in accordance with the contractual terms of the instrument and the cash flows that the Bank expects to receive (i.e. cash shortfalls) discounted at the original effective interest rate (EIR) of the same instrument, or the credit-adjusted EIR in case of purchased or originated credit impaired assets (POCI). In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions are considered.

The Bank estimates expected cash shortfalls, which reflect the cash flows expected from all possible sources, including collateral and other credit enhancements that are part of the contractual terms and are not recognized separately. In case of a collateralized financial instrument, the estimated expected cash flows related to the collateral reflect the amount and timing of cash flows that are expected from liquidation less the discounted costs of obtaining and selling the collateral, irrespective of whether liquidation is probable.

ECL are calculated over the maximum contractual period over which the Bank is exposed to credit risk, which is determined based on the substantive terms of the instrument, or in case of revolving credit facilities, by taking into consideration factors such as the Bank's expected credit risk management actions to mitigate credit risk and past practice.

Receivables from customers arising from the Bank's activities other than lending, are presented under Other Assets and are typically short term. Therefore, considering that usually there is no significant financing component, the loss allowance for such financial assets is measured at an amountequal to the lifetime expected credit losses under the simplified approach.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

ECL Key Inputs

The ECL calculations are based on the term structures of the probability of default (PD), the loss given default (LGD), the exposure at default (EAD) and other input parameters such as the credit conversion factor (CCF) and the prepayment rate. Generally, the Bank derives these parameters from internally developed statistical models and observed point-in-time and historical data, leveraging the existing infrastructure development for the regulatory framework and risk management practices.

The PD represents the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default, over a given time horizon.

The Bank uses Point in Time (PiT) PDs in order to remove any bias towards historical data thus aiming to reflect management’s view of the future as at the reporting date, incorporating relevant forward looking information including macroeconomic scenarios.

Two types of PD are used for calculating ECL:

- 12-month PD, which is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial asset if this is less than 12 months). It is used to calculate 12-month ECL for Stage 1 exposures.
- Lifetime PD, which is the estimated probability of a default occurring over the remaining life of the financial asset. It is used to calculate lifetime ECLs for Stage 2, Stage 3 and POCI exposures.

For sovereign debt securities, implied credit ratings are obtained by an international rating agency data (Moody’s Analytics CreditEdge) using risk methodologies that maximize the use of objective non-judgemental variables and market data. The Bank calculates a single weighted average annualized 5 year PD for all acquisitions of the same debt security, then the PD is mapped to the ratings table provided by Moody’s Analytics CreditEdge on a monthly basis. Based on the PD ranges defined in the table an implied credit rating is assigned. In case of counterparties for which no information is available, the group assigns internal credit ratings derived from internal models. For corporate debt securities that are part of the Bank’s loan portfolio, the loan impairment policies and rules apply.

The Exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest as per agreed repayment schedule and expected drawdowns on committed facilities. The EAD includes both on and off balance sheet exposures. The on balance sheet exposure corresponds to the total amount that has been withdrawn and is due to be paid, which includes the outstanding principal, accrued interest and any past due amounts. The off balance sheet exposure represents the credit that is available to be withdrawn, in excess of the on balance sheet exposure.

Furthermore, the Credit conversion factor (CCF) is used to convert the amount of a credit facility and other off-balance sheet amounts to an EAD amount. It is a modelled assumption which represents a proportion of any undrawn exposure that is expected to be drawn prior to a default event occurring.

In addition, the prepayment rate is an estimate of early prepayments on loan exposure in excess of the contractual repayment according to the repayment schedule and is expressed as a percentage applied to the EAD at each period, reducing the latter amount accordingly.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure and it is the difference between the contractual cash flows due and those that the Bank expects to receive including any amounts from collateral liquidation. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, and is usually expressed as a percentage of EAD.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

The Bank distinguishes its loan portfolios into two broad categories i.e. secured and unsecured. For secured exposures, the Bank estimates the LGD component using cure rates that reflect cash recoveries, estimated proceeds from collateral liquidation, estimates for timing realization, realization costs, etc. for unsecured exposures, the Bank considers at a minimum the cure rates, recovery rates and time to recovery. Where the LGD's component values are dependent on macro – economic data, such types of dependencies are reflected by incorporating forward looking information, such as forecasted price indices into the respective models. The estimation of the aforementioned component values within LGD reflects available historical data which cover a reasonable period, i.e. a full economic cycle.

For debt securities, the LGD is typically based on historical data derived mainly from rating agencies' studies but may also be determined considering the existing and expected liabilities structure of the obligor and macroeconomic environment.
Furthermore, the seniority of the debt security, any potential collateral by the obligor or any other type of coverage is taken into account for the calculation.

Forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about reasonable and supportable forecasts of future events and macroeconomic conditions. The estimation and application of forward-looking information requires significant judgment.
The Bank uses, at a minimum, three macroeconomic scenarios (i.e. base, adverse and optimistic) to achieve the objective of measuring ECL in a way that reflects an unbiased and probability weighted outcome.

The scenarios are reflected in the risk parameters, and, namely 12-month PD, Lifetime PD and LGD, hence 3 sets of each of these parameters are used, in line with the scenarios developed.
Each scenario is assigned with weight, which represent the probability of occurrence for each of these scenarios. These weights are applied on the 3 sets of calculations of the parameters in order to produce a single scenario weighted risk parameter value which is subsequently used in both SICR assessment and ECL measurement.

Modified Financial Assets

The Bank may, in the normal course of its operating activities, modify the contractual terms of a lending arrangement either as a concession granted to a client facing or that is about to face financial difficulties or due to other commercial reasons such as changes in market conditions, competition within the Banking industry, customer retention, etc.

Upon modification of the contractual terms of a lending arrangement, an assessment of whether the modification of contractual terms is substantial should follow in order to conclude on whether the modification qualifies for derecognition of the original loan and the recognition of a new one based on the revised contractual terms.

In general, a lending exposure is derecognised when, and only when, either the contractual cash flows of the lending exposure expire or the exposure is transferred and the transfer qualifies for derecognition.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Modified Financial Assets (continued)

The decision of whether a modification of the contractual terms of a lending arrangement is considered substantial enough to trigger derecognition accounting requires the exercise of judgement. In that context, the Bank assesses modifications based on their significance on both the variability of cash flows and the risk profile of the lending exposure by using qualitative criteria that indicate whether an expiration of the contractual rights to those cash flows has occurred. Also other factors such as the driver of the modification are taken into account to the extent to which the latter affect the variability of the expected cash flows and the risk profile of the lending exposure, subject to modification.

In cases where the modification of the contractual cash flows is not considered substantial (following the de-recognition assessment performed using the de-recognition triggers provided above), the modification does not result in de-recognition. The Bank recalculates the gross carrying amount of the financial asset and recognizes the difference as a modification gain or loss, which is reflected in the income statement. When a modification includes debt forgiveness, the portion of the asset subject to forgiveness is de-recognized first and then the calculation of the modification gain/loss is performed.

The Bank has established a structured framework for both the SPPI and de-recognition assessment of its financial assets that takes place to ensure appropriate classification and measurement. The Bank indicatively considers the qualitative criteria listed in its accounting policy as indicators that represent a substantial modification of contractual terms that could lead to a derecognition, including change in the currency that the lending exposure is denominated, change in borrower, changes in interest rates that are considered significant, debt consolidation, etc. In particular, the Bank has introduced several levels of defense by performing reviews both the assessments and their results by senior management with appropriate knowledge for both lending exposures and debt securities.

Presentation of allowance for credit loss

For financial assets measured at amortized cost, credit impairment losses are recognized as a loss allowance in the income statement reducing the gross carrying amount of the debt instruments in the balance sheet. For debt instruments measured at FVOCI, credit impairment losses are recognized in other comprehensive income and the accumulated amount does not reduce the carrying amount of the debt instruments in the balance sheet. For off-balance sheet financial instruments arising from lending activities, allowance for credit losses is presented in Other Liabilities, while the respective ECL is recognised within impairment losses.

Write-off of financial assets

Where the Bank has no reasonable expectations of recovering a debt instrument either in its entirety or a portion of it, the gross carrying amount of that instrument is reduced directly, partially or in full, against the impairment allowance. The amount that is written-off is considered as derecognized. Subsequent recoveries of amounts previously written off decrease the amount of the impairment losses in the income statement. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

2.2.16 Sale and repurchase agreements and securities lending

(i) Sale and repurchase agreements

Securities sold subject to repurchase agreement ('repos') are retained in the financial statements as trading securities while the counterparty liability is included in deposits due to other banks, or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price in case of repos and the purchase and resale price in case of reverse repos is recognised as interest and accrued over the life of repo or reverse repo agreements using the effective interest rate method.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.16 Sale and repurchase agreements and securities lending (continued)

(ii) Securities lending

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recognized in the financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability.

2.2.17 Leases

(i) Accounting for leases as lessee

When the Bank becomes the lessee in a lease arrangement, it recognizes a lease liability and a corresponding right-of-use (RoU) asset at the commencement of the lease term when the Bank acquires control of the physical use of the asset.

Lease liabilities are presented within Other liabilities and RoU assets within Property, plant and equipment. Lease liabilities are measured based on the present value of the future lease payments over the lease term, discounted using an incremental borrowing rate.For the Bank the incremental borrowing rate is equal to the Bank’s Deposits cost of funds for the respective currency. The interest expense on lease liabilities is presented within Net interest income.

The RoU asset is initially recorded at an amount equal to the lease liability and is adjusted for rent prepayments, initial direct costs, or lease incentives received. Subsequently, the RoU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented within Operating expenses.

When a lease contains extension or termination options that the Bank considers reasonably certain to be exercised, the expected future lease payments or costs of early termination are included within the lease payments used to calculate the lease liability.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the Bank’s estimate of the amount expected to be payable under a residual value guarantee or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

With respect to the rent concessions that are a direct consequence of the COVID-19 pandemic, the Bank has applied COVID-19-Related Rent Concessions - Amendment to IFRS 16, which provides a practical expedient allowing the Bank not to assess whether eligible rent concessions are lease modifications.

(ii) Accounting for leases as lessor

At inception date of the lease, the Bank, acting as a lessor, classifies each of its leases as either an operating lease or a finance lease based on certain criteria.

Finance leases

At commencement date, the Bank derecognizes the carrying amount of the underlying assets held under finance lease, recognizes a receivable at an amount equal to the net investment in the lease and recognizes, in profit or loss, any profit or loss from the derecognition of the asset and the recognition of the net investment.

The net investment in the lease is calculated as the present value of the future lease payments in the same way as for the lessee.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.17 Leases (continued)

After commencement date, the Bank recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. The Bank also recognizes income from variable payments that are not included in the net investment in the lease. After lease commencement, the net investment in a lease is not remeasured unless the lease is modified or the lease term is revised. Finance leases are reported as part of Loans and advances to customers.

Operating leases

The Bank continues to recognize the underlying asset and does not recognize a net investment in the lease on the balance sheet or initial profit (if any) on the income statement.
The Bank recognizes lease payments from the lessees as income on a straight-line basis. Also it recognizes costs, including depreciation, incurred in earning the lease income as an expense. The Bank adds initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognizes those costs as an expense over the lease term on the same basis as the lease income.

Subleases

The Bank, acting as a lessee, may enter into arrangements to sublease a leased asset to a third party while the original lease contract is in effect. The Bank acts as both the lessee and lessor of the same underlying asset. The sublease is a separate lease agreement, in which the intermediate lessor classifies the sublease as a finance lease or an operating lease as follows:
- if the head lease is a short-term lease, the sublease is classified as an operating lease; or
- otherwise, the sublease is classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

2.2.18 Income tax

Taxation has been provided for in the financial statements in accordance with Bulgarian legislation currently in force.
Income tax expense comprises current and deferred tax. It is recognized in the income statement except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.
Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the balance sheet date. Income tax payable on profits, based on the applicable tax law is recognized as an expense in the period in which profits arise. The Bank shall offset current tax assets and current tax liabilities if, and only if it has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. The principal temporary differences arise from depreciation of property, plant and equipment, provisions for court cases and provisions for untaken annual leaves, as well as those arisen as a result of the difference between the value of the financial assets of the merging company at the date of the merger and the value at which the same financial assets were recognized by the receiving (parent) company. Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.18 Income tax (continued)

The Bank shall offset deferred tax assets and deferred tax liabilities if, and only if it has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

The Bank determines and assesses all material tax positions taken, including all, if any, significant uncertain positions, in all tax years that are still subject to assessment (or when the litigation is in progress) by relevant tax authorities. In evaluating tax positions , the Bank examines all supporting evidence (Ministry of Finance circulars, past administrative practices, ad hoc tax/legal opinions etc.) to the extent they are applicable to the facts and circumstances of the particular Bank's case/ transaction.

2.2.19 Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Social, pension and health funds

The Bank is obliged by the current Bulgarian legislation to make fixed contribution on behalf of the employees to a social fund operated by the Government. All those payments/liabilities are recognised as an expense in the period to which those relate.

(iii) Retirement benefit obligations

In accordance with article 222, Para. 3 of the Bulgarian Labour Code, in the event of termination of a labour contract after the employee has reached the lawfully required retirement age, regardless of the reason for the termination, the employee is entitled to compensation as follows: 2 gross monthly salaries in all cases and 6 gross monthly salaries if the employee has been engaged with the Bank or with an entity from the Group for at least 10 years.Provision has been made for the actuarial value of the lump sum payable on retirement using the projected unit credit method. Under this method the cost of providing retirement indemnities is charged to the income statement so as to spread the cost over the period of service of the employees, in accordance with the actuarial valuations which are performed every year.

The obligation is calculated as the present value of the estimated future cash outflows using interest rates of Bulgarian government bonds at the end of the reporting period. The currency and term to maturity of the bonds used are consistent with the currency and estimated term of the retirement benefit obligations. Actuarial gains and losses that arise in calculating the Bank's obligation are recognised directly in other comprehensive income in the period in which they occur and are not reclassified to the income statement in subsequent periods.

Past service costs and interest expense are recognised immediately in the income statement.

2.2.20 Repossessed collaterals

Land and buildings repossessed through an auction process to recover impaired loans are, except where otherwise stated, included in 'Other Assets'. Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale.

In cases where the Bank makes use of repossessed properties as part of its operations, they are reclassified to own occupied or investment properties, as appropriate.

Any gains or losses on liquidation are included in the income statement.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.21 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings include deposits from banks, due to customers, other borrowed funds.

2.2.22 Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and reliable estimates of the amount of the obligation can be made.
The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at each reporting date, taking into account the risks and uncertainties surrounding the amount of such expenditure.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If, subsequently, it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.2.23 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days to maturity from the date of acquisition including: cash and non-restricted balances with central banks, amounts due from other banks and short-term government securities. Investments are treated or qualify as cash equivalents only when they have a short maturity of 90 days or less from the date of acquisition. Cash and cash equivalents are measured at amortized cost.

2.2.24 Financial guarantees and other related commitments

Financial guarantees

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, such guarantees are measured at the higher of the amount of the impairment loss allowance, and the amount initially recognised less any cumulative amortization of the fee earned, where appropriate.

Commitments to extend credit

Commitments represent off-balance sheet items where the Bank commits, over the duration of the agreement, to provide a loan with pre-specified terms to the customer. Such contractual commitments represent commitments to extend credit and standby letters and they are part of the normal lending activities of the Bank, for which an impairment allowance is recognised under IFRS 9.
Impairment allowance for off-balance sheet exposures (financial guarantees and commitments) is included within Other Liabilities.

Furthermore, commitments to extend credit represent off-balance sheet items where the Bank commits, over the duration of the agreement, to provide a loan with pre-specified terms to the customer. The Bank recognizes a provision in accordance with IAS 37 only when the commitment contract can be considered to be onerous.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.25 Related party transactions

Related parties of the Bank include:

(a) an entity that has control over the Bank and entities controlled, jointly controlled or significantly influenced by this entity, as well as members of its key management personnel and their close family members;
(b) an entity that has significant influence over the Bank and entities controlled by this entity,
(c) members of key management personnel of the Bank, their close family members and entities controlled or jointly controlled by the abovementioned persons;
(d) associates and joint ventures of the Bank; and
(e) fellow subsidiaries.
Transactions of similar nature are disclosed on an aggregate basis. All banking transactions entered into with related parties are in the normal course of business and are conducted on an arm's length basis.

2.2.26. Non-current assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. For a non-current asset to be classified as held for sale, it is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets, and the sale is considered to be highly probable. In such cases, management is committed to the sale and actively markets the property for sale at a price that is reasonable in relation to the current fair value. The sale is also expected to qualify for recognition as a completed sale within one year from the date of classification. Before their classification as held for sale, assets are remeasured in accordance with the respective accounting standard.

Assets held for sale are subsequently remeasured at the lower of their carrying amount and fair value less cost to sell. Any loss arising from the above measurement is recorded in profit or loss and can be reversed in the future. When the loss relates to a disposal group, it is allocated to the assets within that disposal group.

3.Critical accounting estimates and judgments in applying accounting policies

In the process of applying the Bank's accounting policies, the Management makes various judgments, estimates and assumptions that may affect the reported amounts of assets and liabilities, revenues and expenses recognized in the financial statements within the next financial year and the accompanying disclosures. Estimates and judgments are continually evaluated and are based on current conditions, historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant areas in which the Bank makes judgments, estimates and assumptions in applying its accounting policies are set out below:

3.1 Impairment losses on loans and advances

ECL measurement

The ECL measurement requires management to apply significant judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in significant changes to the timing and amount of allowance for credit loss to be recognized.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. In addition, temporary adjustments may be required to capture new developments and information available, which are not reflected yet in the ECL calculation through the risk models.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3.Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances (continued)

ECL measurement (continued)

Due to the extraordinary circumstances of the Covid-19 pandemic and although ECL calculation methodology remained unchanged compared to 31 December 2019, the Bank revised the assumptions and estimates applied in order to reflect appropriately, to the extent possible, the negative impact of the pandemic. Accordingly, Management applied the appropriate level of judgement regarding its expectations for the severity and the duration of the economy's negative outlook, in line with the IASB, the European Central Bank (ECB) and local banking regulators' statements, which emphasize the need for overlays where the risk models do not capture the specific circumstances.Elements of the ECL models that are considered accounting judgments and estimates include:

Determination of a significant increase of credit risk
IFRS 9 does not include a definition of what constitutes a significant increase in credit risk (SICR). An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering primarily the change in the risk of default occurring over the remaining life of the financial instrument. The Bank assesses whether a SICR has occurred since initial recognition based on qualitative and quantitative reasonable and supportable information based on current and past experience. For all lending exposures the primary criterion for allocation from one stage to another is the percentage change in the current residual cumulative lifetime PD compared to origination residual cumulative lifetime PD above specified thresholds. These thresholds are set and vary per portfolio, product type as well as per origination PD level. In general, thresholds for lower origination PDs are higher than those assessed for higher origination PDs.
As of 31 December 2020 and as of 31 December 2019, the range of lifetime PD thresholds based on the above segmentation, that triggers allocation to Stage 2 for lending exposures are set out below:

Portfolio	Range of SICR thresholds
Consumer	10% - 70%
Mortgage	20% - 30%
SBB	0,01% - 80%
Wholesale	100% - 2000%

In the context of Covid-19 pandemic outbreak and considering the fact that the entire lending portfolios are not equally affected by the pandemic as well as that the Banks' existing models cannot fully capture the impact of Covid-19 related support measures and moratoria, whose impact will be better estimated later in 2021 and the assumptions inherent in IFRS9 models, the Bank performed further analysis on the Stage 1 portfolios, which it perceived as potentially most negatively affected – Moratoria portfolio in Retail lending and the portfolio operating in the high risk industries in Wholesale lending.The timely and accurate monitoring of the borrowers under payment moratoria is a prerequisite for the successful implementation of initiatives undertaken to address of COVID-19 pandemic, aiming at mitigating anticipated cliff effect upon their expiration within 2021. In line with EBA Guidelines regarding the application of general payment moratoria, the Bank continued assessing borrowers in terms of credit risk increase, financial difficulty and unlikeliness to pay triggers. To that end, the Bank proactively segmented lending portfolios by industry sectors depending on the level of operational difficulties caused by the pandemic in the different sectors and the general shift in the consumers' behavior in a time of crisis and prioritized all sectors related to entertainment, hospitality and transport services, as well as to sectors related to manufacture or sale of goods different than food, drinks, pharmaceutical products, in terms of monitoring and active management as well as when estimating the Covid-19 impact on the calculation of ECL.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances (continued)

In response to COVID-19 pandemic on the assessment of SICR and unlikeliness to pay triggers in the lending portfolio, in order to address existing models' limitations in assessing whether a SICR or unlikeliness to pay triggers have occurred, the Bank applied additional assessment criteria, so as to distinguish between borrowers that are impacted by Covid-19 pandemic and experience SICR or are unlikely to pay and those who do not. During the assessment process data from various sources is being used (public registers, debtor's financial information, Bank's data warehouse, information gathered from relationship managers for wholesale exposures).
Then this data is processed and analysed using risk expert knowledge in order to derive criteria and thresholds for SICR or unlikeliness to pay triggers. The Stage 1 exposures of customers that comply with the additional SICR criteria are transferred to Stage 2, and those who are unlikely to pay to Stage 3. As a result of the analysis, a direct management overlay at the amount of BGN 10,614 thousand has been applied, which is in the form additional ECL due to reclassification of customers to Stage 2 and Stage 3.

Based on recent banking regulators' and accounting guidance (European Banking Authority (EBA), ECB, IASB) Covid-19 relief measures should neither be treated as forbearance nor automatically trigger a significant increase in credit risk. Such measures are accounted for as modifications, granted for other than forbearance reasons. Further information regarding the Bank's lending exposures subject to moratoria and government support measures are provided in Note 5.2.1.2 (e).

Management continuously monitors the pandemic consequences to all sectors of the economy, in contemplation with the expected remedy effect of the government actions, in order to assess whether there is a significant increase in credit risk.

Determination of scenarios, scenario weights and macroeconomic factors

To achieve the objective of measuring ECL, the Bank evaluates a range of possible outcomes in line with the requirements of IFRS 9 through the application of a minimum three macroeconomic scenarios i.e. baseline, adverse and optimistic, in a way that reflects an unbiased and probability weighted outcome.

Each of the scenarios is based on management's assumptions around future economic conditions in the form of macroeconomic, market and other factors. The Bank, in order to respond to the unprecedented circumstances of the Covid-19 crisis revised the forward-looking information used in all three macroeconomic scenarios, i.e. base, optimistic and adverse, regarding the key macroeconomic variables. Additionally, the relevant weights of these three scenarios, applied by the Bank in the ECL measurement calculations, were changed to 30% for base, 20% for optimistic and 50% for adverse as of December 2020 compared to 31 December 2019 when the weights were 40% for base, 30 % for optimistic and 30% for adverse. The Bank ensures that impairment estimates and macroeconomic forecasts applicable for financial reporting, business and regulatory purposes are fully consistent.

The most recent macro forecast reflecting COVID-19 is based on the key assumptions for the baseline forecasts, as follows:

- Economic recovery is projected to be limited up to mid-2021, with the economy reaching pre-pandemic levels in 2022;
- Household consumption marked a moderate rebound in Q3 but lose momentum over end-2020 and early 2021 as additional COVID-19 restrictions came into action;
- Limited business investments, which imply slower recovery of the labour market and further constraints;
- International trade will resume more actively in 2021, which will drive imports and exports up;
- The general price level is expected to ease in 2021, underlined by weak overall demand and low oil prices;

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances (continued)

- Unemployment is expected to increase slightly over Q3 2020 and reach its maximum in Q4 2020, then gradually ease as hiring picks up again in 2021.

The following risks have been taken into consideration:

i. Downside risks:
- U-shaped recovery – tightened credit conditions, leading to deeper hit to investments, consumer spending and the housing market. Less successful government interventions, resulting in larger rise in unemployment and business insolvencies;
- L-shaped recovery – the main difference with the U-shaped case is the scale of the credit conditions. In this case, as the economy emerges from the containment phase, it enters an extended period of stagnation, which leads to a bigger scale of business failures and job losses during the suppression phase.

ii. Upside risk
- Swifter V-shaped recovery – suppression policy goals yield better results, the timescales around distributing a vaccine are also at the optimistic end of the estimates. The government does not tighter the containment measures further, this avoiding a second lock-down. Infection rates are contained and wholesale suppression strategies are avoided.

In terms of macroeconomic assumptions, the Bank assesses a number of indicators in projecting the risk parameters. Regarding the macroeconomic indicators used in the ECL measurement of Bulgarian lending portfolios for the year ended 31 December 2020, the arithmetic averages of the scenarios' probability-weighted annual forecasts from 2021 to 2025, are set in the following table:

Determination of scenarios, scenario weights and macroeconomic factors (continued)

	Unit	**Arithmetic Average (2021 - 2025) Probability weighted annual forecast**
Gross Domestic Product	YOY % 2010 prices	3.12%
Domestic Demand	YOY % 2010 prices	2.98%
Number of Employed	YOY %	(0.86%)
Unemployment Rate	%	5.79%
Long term interest rate	%	1.64%
Retail Sales	YOY %	3.59%
Average Monthly Wage	YOY %	3.59%
Total Disposable Income Per Person	YOY %	3.82%
House Price Index	YOY % 2015=100	3.45%
Interest Rate Spread (companies)	%	4.40%
Central Bank Policy Rate	%	0.46%
Imports (goods and services)	YOY %	3.95%

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances (continued)

Changes in the scenarios and weights, the corresponding set of macroeconomic variables and the assumptions made around those variables for the forecast horizon would have a significant effect on the ECL amount.

Development of ECL models, including the various formulas, choice of inputs and interdependencies

For the purposes of ECL measurement the Bank performs the necessary model parameterization based on observed point-in-time data on a granularity of monthly intervals. The ECL calculations are based on input parameters, i.e. EAD, PDs, LGDs, CCFs, etc. incorporating management's view of the future. The Bank also determines the links between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.

Furthermore, the PDs incorporate relevant forward looking information including macroeconomic scenarios. The forecasting risk parameters models incorporate a number of explanatory variables, such as GDP, unemployment etc. which are used as independent variables for optimum predictive capability.

The models are based on linear and logistic regressions and run under the different macroeconomic scenarios and relevant changes and shocks in the macro environment reflected accordingly.

Segmentation of financial assets when their ECL is assessed on a collective basis

The Bank segments its exposures on the basis of shared credit risk characteristics upon initial recognition for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to capture differences in PDs and in the rates of recovery in the event of default. On subsequent periods, the Bank re-evaluates the grouping of its exposures at least on an annual basis, in order to ensure that the groups remain homogeneous in terms of their response to the identified shared credit risk characteristics. Re-segmentation reflects management's perception in respect to the change of credit risk associated with the particular exposures compared to initial recognition.

Modeling and Management overlays / adjustments

A number of sophisticated models have been developed or modified to calculate ECL, while temporary management adjustments may be required to capture new developments and information available, which are not yet reflected in the ECL calculation through the risk models. Internal counterparty rating changes, new or revised models and data may significantly affect ECL.

In response to the Covid-19 pandemic, the Bank applied the analysis detailed above in section ''*Determination of a significant increase of credit risk'* to supplement its SICR assessment, in line with the IASB, the European Central Bank (ECB) and other banking regulators' statements, which resulted in a direct management overlay amounting to BGN 10,614 thousand in the form additional ECL due to reclassification of customers to Stage 2 and Stage 3.

In addition, the developments of the Covid-19 pandemic, induce a high level of uncertainty regarding their potential impact on the asset quality, considering that the customer relief may not fully eliminate the potential credit deterioration and therefore temporarily delay its manifestation. In view of such anticipated adverse effect, the Bank proceeded with the estimation of a post-model adjustment of BGN 6,905 thousand. It forms part of the impairment allowance and provides for a potential cliff effects after the expiration of moratoria. In estimating the adjustment, Management exercised judgement based on the knowledge of the Bank's lending portfolios, their particular characteristics and behavioral aspects.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances (continued)

Sensitivity analysis on lending portfolios

The tables below depict the effect in the Bank's ECL measurement upon potential, reasonably combined changes of forecasts in all macroeconomic indicators used for ECL estimation over the next 5 years (2021-2025), compared to the actual probability weighted macroeconomic scenarios:

Sensitivity Scenario

Indicator	Unit	Scenario	2021	2022	2023	2024	2025
Gross Domestic Product	YOY % 2010 prices	Optimal	10.54%	6.29%	6.31%	6.32%	6.03%
		Baseline	5.28%	2.49%	2.56%	2.65%	2.62%
		Adverse	2.99%	0.82%	0.83%	0.87%	0.90%
Domestic Demand	YOY % 2010 prices	Optimal	7.52%	4.21%	4.19%	4.05%	3.88%
		Baseline	5.35%	2,54%	2,46%	2,33%	2,24%
		Adverse	4.37%	1.81%	1.68%	1.53%	1.47%
Number of Employees	YOY %	Optimal	1.23%	-0.27%	-0.26%	-0.26%	-0.31%
		Baseline	-0.23%	-0.98%	-1%	-1.02%	-1.10%
		Adverse	-0.85%	-1.29%	-1.32%	-1.35%	-1.45%
Unemployment Rate	%	Optimal	4.22%	4.23%	4.42%	4.60%	4.84%
		Baseline	5.65%	5.64%	5.78%	5.90%	5.98%
		Adverse	6.24%	6.24%	6.36%	6.46%	6.47%
Long term interest rate	%	Optimal	0.72%	1.08%	1.93%	2.78%	3.57%
		Baseline	0.33%	0.72%	1.56%	2.40%	3.20%
		Adverse	0.17%	0.56%	1.40%	2.24%	3.05%
Retail Sales	YOY %	Optimal	8.16%	5.34%	5.17%	5.03%	4.76%
		Baseline	4.06%	3.45%	3.40%	3.50%	3.54%
		Adverse	3.70%	2.65%	2.43%	2.29%	2.16%
Average Monthly Wage	YOY %	Optimal	6.07%	5.17%	5.17%	5.27%	5.23%
		Baseline	4.06%	3.45%	3.40%	3.50%	3.54%
		Adverse	3.17%	2.70%	2.59%	2.69%	2.75%
Total Disposable Income Per Person	YOY %	Optimal	9.51%	8.82%	8.67%	8.79%	8.68%
		Baseline	3.97%	3.71%	3.63%	3.85%	3.95%
		Adverse	1.59%	1.40%	1.20%	1.30%	1.36%
House Price Index	YOY % 2015=100	Optimal	9.24%	8.45%	8.17%	7.99%	7.98%
		Baseline	3.91%	3.37%	3.23%	3.28%	3.44%
		Adverse	1.65%	1.10%	0.88%	0.90%	1.00%
Interest Rate Spread (companies)	%	Optimal	3.27%	3.74%	4.03%	4.23%	4.29%
		Baseline	3.75%	4.23%	4.53%	4.73%	4.76%
		Adverse	3.95%	4.44%	4.75%	4.94%	4.96%
Central Bank Policy Rate	%	Optimal	0.13%	0.32%	0.59%	0.97%	1.64%
		Baseline	-0.12%	0.06%	0.30%	0.67%	1.37%
		Adverse	-0.24%	-0.06%	0.16%	0.54%	1.25%
Imports (goods and services)	YOY %	Optimal	14.13%	6.40%	6.26%	5.77%	6.03%
		Baseline	8.55%	2.89%	2.83%	2.64%	2.83%
		Adverse	6.00%	1.29%	1.22%	1.13%	1.20%

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances (continued)

Sensitivity analysis on lending portfolios (continued)

	As at 31 December 2020 Impact			
	in € million		% of allowance	
Lending portfolio	**Positive Change**	**Adverse Change**	**Positive Change**	**Adverse Change**
Wholesale Lending	(0.67)	4.71	(0.82%)	5.75%
Retail Lending	(0.31)	0.49	(0.30%)	0.48%
Total	**(0.99)**	**5.2**	**(0.53%)**	**2.8%**

It is noted that sensitivity analysis when performed on certain key parameters can provide meaningful information only for portfolios where the risk parameters have a significant impact on the overall credit risk of a lending portfolio, particularly where such sensitivities are also used for internal credit risk management purposes. Otherwise, a sensitivity on certain combinations of some risk parameters may not produce meaningful results as in reality there are interdependencies between the various economic inputs rendering any changes in the parameters correlated changes in other factors.
The Bank updates and reviews the reasonability and performs back-testing of the main assumptions used in its methodology assessment for SICR and ECL measurement, at least on an annual basis or earlier, based on facts and circumstances. In this context, experienced and dedicated staff within the Bank's Risk Management function monitors the risk parameters applied for the estimation of ECL. Furthermore, as part of the well-defined governance framework, any revisions to the methodology used are approved by the Bank competent committees and ultimately the Risk Committee (RC).

3.2. Fair value of financial instruments

The fair value of financial instruments 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 under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The fair value of financial instruments that are not quoted in an active market are determined by using other valuation techniques that include the use of valuation models. In addition, for financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using other valuation techniques.

The valuation models used include present value methods and other models based mainly on observable inputs and to a lesser extent to non-observable inputs, in order to maintain the reliability of the fair value measurement.

Valuation models are used mainly to value over-the-counter derivatives and securities measured at fair value. Where valuation techniques are used to determine the fair values of financial instruments that are not quoted in an active market, they are validated and periodically reviewed by qualified personnel independent of the personnel that created them. All models are certified before they are used, and are calibrated to ensure that outputs reflect actual data and comparative market prices.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.2. Fair value of financial instruments (continued)

The main assumptions and estimates, considered by management when applying a valuation model include:

- the likelihood and expected timing of future cash flows;
- the selection of the appropriate discount rate, which is based on an assessment of what a market participant would regard as an appropriate spread of the rate over the risk-free rate; and
- judgment to determine what model to use in order to calculate fair value.

To the extent practicable, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates to reflect uncertainties in fair values resulting from the lack of market data inputs. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available. However, in most cases there will be some historical data on which to base a fair value measurement and consequently even when unobservable inputs are used, fair values will use some market observable inputs.

Information in respect of the fair valuation of the Bank's financial assets and liabilities is provided in note 5.3.

3.3 Classification of financial instruments

The Bank applies critical judgment in assessing the classification of its financial instruments and especially, in the below areas:

Business model assessment

Judgment is exercised in order to determine the appropriate level at which to assess the business model. The Bank's business models are determined at a key management personnel level for loan portfolio and centrally by the Group for debt securities. In assessing the business model of financial instruments, these are aggregated into groups (business lines) based on their characteristics, and the way they are managed in order to achieve the Bank's business objectives. In general the assessment is performed at the business unit level both for loans and debt securities.

In assessing the business model for financial instruments, the Bank performs a past sales evaluation of the financial instruments and assesses their expected evolution in the future. Judgment is exercised in determining the effect of sales to a "hold to collect" business model depending on their objective and thei acceptable level and frequency.

Contractual cash flow characteristics test (SPPI test)

The Bank performs the SPPI assessment of loans and debt securities by considering all the features which might potentially lead to SPPI failure. Judgment is applied by the responsible Business Divisions when considering whether certain contractual features significantly affect future cash flows. Accordingly, for non-recourse loans, the Bank assesses jointly criteria such as the adequacy of equity, LTV (Loan-to-Value) and DSCR (Debt-Service-Coverage-Ratio) ratios as well as the existence of corporate and personal guarantees. Furthermore, in order to assess whether any variability in the cash flows is introduced by the modified time value of money element, the Bank performs a quantitative assessment (as described in note 2.2.10). Moreover, the Bank evaluates certain cases on whether the existence of performance-related terms exposes the Bank to asset risk rather to the borrower's credit risk.

The Bank has established a robust framework to perform the necessary assessments in accordance with Bank's policies in order to ensure appropriate classification of financial instruments, including reviews by experienced staff for both lending exposures and debt securities.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.4 Retirement benefit obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions, such as the discount rate and future salary increases. Any changes in these assumptions will impact the carrying amount of pension obligations.
The Bank determines the appropriate discount rate used to calculate the present value of the estimated retirement obligations, at the end of each year. In determining the appropriate discount rate, interest rates of Bulgarian government bonds at the end of the reporting period are used. The currency and term to maturity of the bonds used are consistent with the currency and estimated term to maturity of the retirement benefit obligations. The salary rate increase assumption is based on future inflation estimates reflecting also the Bank's reward structure and expected market conditions. The assumed rate of salary increase is determined by reviewing the Bank's salary increases each year. Other assumptions for pension obligations, such as the inflation rate, are based in part on current market conditions.
For information in respect of the sensitivity analysis of the Bank's retirement benefit obligations to reasonably possible, at the time of preparation of these financial statements, changes in the abovementioned key actuarial assumptions, refer to note 30.

3.5 Provisions and contingent liabilities

The Bank recognizes provisions when it has a present legal or constructive obligation, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of its amount.
A provision is not recognized and a contingent liability is disclosed when it is not probable that an outflow of resources will be required to settle the obligation, when the amount of the obligation cannot be measured reliably or in case that the obligation is considered possible and is subject to the occurrence or non -occurrence of one or more uncertain future events.Considering the subjectivity and uncertainty inherent in the determination of the probability and amount of the abovementioned outflows, the Bank takes into account a number of factors such as legal advice, the stage of the matter and historical evidence from similar cases. Further information in relation to the Bank's provisions and contingent liabilities is provided in note 35.

3.6 Fair value of land and buildings, repossessed collateral and investment properties

Fair value of land and buildings

The Bank determines the fair value of land and building from market-based evidence by appraisal that is undertaken by professionally qualified valuators.

The main valuation methods used to determine the fair value were:
- market prices analogues (where assets are compared to those similar of nature offered on the market)
- present value of future income for rent generating assets (DCF)
- method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

Fair value of repossessed collaterals

Repossessed collateral are stated at the lower cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale. The fair value is determined annually by external appraiser companies.

The fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. In the absence of such information, the fair value estimation of the external appraiser companies is based on the cost of the asset with adjustments to reflect any changes in economic conditions and the management's best estimate regarding the future trend of properties market.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.6 Fair value of land and buildings, repossessed collateral and investment properties (continued)

Fair value of investment properties

Investment property is carried at fair value, as determined by external, independent, certified valuators on an annual basis.
The main factors underlying the determination of fair value are related with rental income from current leases and assumptions about rental income from future leases in the light of current market conditions, future vacancy rates and periods, discount rates or rates of return, the terminal values as well as the level of future maintenance and other operating costs.
Additionally, where the fair value is determined based on market prices of comparable transactions those prices are subject to appropriate adjustments, in order to reflect current economic conditions and management's best estimate regarding the future trend of properties market based on advice received from its independent external valuers.Further information in respect of the fair valuation of the Bank's investment properties is included in note 20.

3.7 Fair value of loans and advances of customers acquired

Following IFRS 3 Business Combination requirement, loans and advances to customers acquired through the acquisition of Piraeus Bank Bulgaria (Note 38) should be measured at fair value as of acquisition date and subsequently measured at amortized cost.
Loans and advances to customers acquired were fair valued using an Income Approach valuation model. The Income Approach indicates the value of an asset based on its cash generation potential, where the maximum amount that a potential investor would be willing to pay for the asset would not exceed the net present value of the future benefits generated by the asset. The fair values are estimated by discounting future expected cash flows over the time period they are expected to be recovered, using appropriate risk-adjusted discount rates. Loans are grouped according to their EBA statuses and IFRS 9 Stages at acquisition into homogenous assets with similar characteristics, such as currency, product, borrower type, etc., in order to improve the accuracy of the estimated valuation outputs. Assumptions for expected prepayments and timing of collateral realization were incorporated in estimating future cash flows, while the discount rates incorporate observable inputs such as BNB statistics for interest rates on new loans and unobservable inputs for relevant risk premiums to reflect liquidity, maturity, customer type, the required rate of return of average market investor in non-performing exposures, etc.

3.8. Leases

The Bank, as a lessee, 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 applies judgement in evaluating whether it is reasonably certain or not to exercise an option to renew or terminate the lease, by considering all relevant factors and economic aspects that create an economic incentive. The Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate, such as significant leasehold improvements or significant customization of the leased asset.
In measuring lease liabilities, the Bank uses a discount rate equal to the Bank's deposits cost of funds for the respective currency /at the date of transition. It is revised on a regular bases and the revised discount rate is used for the new contracts.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

4. Capital management

The Bank prepares quarterly statutory reports and monthly reports for internal purposes, in accordance with the requirements of Regulation (EU) 575/2013 and Regulation №8 of the Bulgarian National Bank (BNB) on capital buffers of banks. The Bank applies the standardised approach for credit and market risks and the Basic Indicator Approach for operational risk since 1 of January 2007.
According to supervisory statements of the Bank for the purposes of the Bulgarian National Bank in accordance with Regulation (EU) 575/2013 of the European Parliament and the Council as of 31 December 2020, the Bank was in compliance with capital adequacy requirements, maintaining CET 1 ratio comfortably above the regulatory required level. As disclosed in the regulatory reports to the Central Bank, the capital adequacy ratio of the Bank is 20.91 %.

The Bank's Management objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

In accordance with Law on Credit Institutions each bank or banking group is required to hold the minimum level of paid-in capital amounting to BGN 10,000 thousand.
Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and Regulation (EU) 575/2013 and Directive 2013/36 of the European Union. The required information is filed with the Bulgarian National Bank on a quarterly basis.
Regulatory capital consists of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Tier 1 capital includes shareholders' ordinary equity, „Reserve" fund, retained earnings from previous year, unrealized gains/losses from FVOCI financial instruments and is reduced by intangible assets and deferred tax assets. Tier II capital includes subordinated debt and hybrid instruments.

The own funds requirements under Basel III are the following (as a percentage of risk-weighted assets, RWA):

- CET 1 capital ratio of 4.5%;
- Tier 1 capital ratio of 6%;
- Total capital ratio of 8 %.

Additionally, capital conservation buffer, systemic risk buffer, capital buffer for other systemically important institutions (O-SIIs) and countercyclical capital buffer are introduced. The capital conservation buffer equals 2.5% of RWA; the systemic risk buffer equals 3% of RWA; the O-SIIs buffer equals 0.75% of RWA and the countercyclical capital buffer – 0.50% of RWA.
On 19 March 2020, in relation to the COVID-19 pandemic, BNB cancelled the projected increase of the countercyclical capital buffer, scheduled for 2020 and 2021.
The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of − and reflecting an estimate of credit, market and other risks associated with − each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.
From 1 January 2020 Eurobank Bulgaria A.D. meets, on an individual basis, a Pillar 2 additional own funds requirement of 1.25%, to be entirely composed of CET 1 capital.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

4. Capital management (continued)

On 24 June 2020 the Regulation 2020/873 (CRR quick fix) was adopted by the Council of the European Union and the European Parliament. This Regulation introduced some changes in the CRR to maximize the ability of banks to continue lending during the Covid-19 pandemic. These changes include among others:
-Extension by two years of the transitional arrangements for IFRS 9 and further relief measures, allowing banks to add back to their regulatory capital any increase in new provisions for expected losses that they recognize in 2020 and 2021 for their financial assets, which have not been defaulted.
-Earlier application of the revised supporting factors for loans to SMEs and certain infrastructure projects' companies, which allows for a more favorable prudential treatment of these exposures.
-A preferential treatment of exposures to public debt issued in the currency of another Member State and flexibility regarding the large exposures limit.

5. Financial risk management and fair value

5.1 Use of financial instruments

By their nature the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers within a range of credit standing. Such exposures include both on-balance sheet loans and advances and off-balance sheet guarantees and other commitments such as letters of credit.

The Bank might also perform trades in financial instruments where it takes positions in traded and over the counter financial instruments, including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency and interest rates.

5.2 Financial risk factors

Due to its activities, the Bank is exposed to a number of financial risks, such as credit risk, market risk (including currency and interest rate risk), liquidity and operational risks. The Bank's overall risk management strategy seeks to minimize any potential adverse effects on its financial performance, financial position and cash flows.

Risk Management objectives and policies

The Bank acknowledges that taking risks is an integral part of its operations in order to achieve its business objectives. Therefore, the Bank's management sets adequate mechanisms to identify those risks at an early stage and assesses their potential impact on the achievement of these objectives.

Due to the fact that economic, industry, regulatory and operating conditions will continue to change, risk management mechanisms are set (and adjusted) in a manner that enables the Bank to identify and deal with the risks associated with those changes. The Bank's structure, internal processes and existing control mechanisms ensure both the independence principle and the exercise of sufficient supervision.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

Risk Management objectives and policies (continued)

The Bank's Management considers effective risk management as a top priority, as well as a major competitive advantage, for the organization. As such, the Bank has allocated significant resources for upgrading its policies, methods and infrastructure, in order to ensure compliance with the requirements of the European Central Bank (ECB), with the guidelines of the European Banking Authority (EBA) and of the Basel Committee for Banking Supervision, with Bulgarian National Bank and with the best international banking practices. The Bank implements a well-structured credit approval process, independent credit reviews and effective risk management policies for credit, market, liquidity and operational risk. The risk management policies implemented by the Bank are reviewed annually.

The Bank’s Risk strategy, which has been formally documented, outlines the Bank’s overall direction regarding risk and capital management issues, including the risk management mission and objectives, risk definitions, risk management principles, risk appetite framework, risk governance framework, strategic objectives and key management initiatives for the improvement of the risk management framework in place.

The maximum amount of risk which the Bank is willing to assume in the pursuit of its strategic objectives is articulated via a set of quantitative and qualitative statements for specific risk types, including specific tolerance levels. The objectives are to support the Bank’s business growth, balance a strong capital position with higher returns on equity and to ensure the Bank’s adherence to regulatory requirements.

Risk Committee

The Bank’s risk governance framework comprises a number of different constituents. In particular, the Supervisory Board has set up a Risk Committee overseeing all risk management functions. It is currently complemented by the Risk function.

The Supervisory Board has delegated to the Risk Committee the role of approving all strategic risk management decisions (e.g. local risk appetite, capital allocation, balance-sheet profile and risk management structure). The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks.

The Risk Committee is empowered to:

- ✓ Review and analyse the Bank’s risk profile, identify and assess significant risks;
- ✓ Develop adequate policies and procedures in order to identify, assess, monitor and control significant risks;
- ✓ Inform the Supervisory Board about significant problems or developments that could have an impact on the Bank’s risk profile;
- ✓ Monitor the implementation of policies related to the management of significant risks
- ✓ Approve adequate methodologies and models for risk assessment and exposure limitation.

The Risk Committee updates the Supervisory Board on the adequacy of the risk management structure and reports key risks. Any significant matters of concern are escalated either to the Supervisory Board of Eurobank Bulgaria AD or to the Eurobank SA’s Group Risk Committee.

Non-Performing Exposures (NPEs) management

The Bank has established an organizational and hierarchical model in order to empower the management of troubled assets and to be adequate to the macro environment, adopting the regulatory requirements.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

Non-Performing Exposures (NPEs) management (continued)

Proactive measures have been taken in this regard, as the Bank has transformed its troubled assets operating model by establishing a dedicated Troubled Assets Group Division (TAG) and respective troubled assets governance bodies, namely the Troubled Assets Committee (TAC) and the Special Handling Monitoring Committee (SHMC).

Troubled Assets Committee (TAC)
The Troubled Assets Committee (TAC) is established as a committee of Troubled Assets Group Division under the Bank`s Management Board. The TAC oversees and monitors the Bank's troubled assets' management. In particular, the main competencies that have been delegated to TAC relate to the monitoring of loans in arrears and the management of non-performing loans, the determination and implementation of the troubled assets' management strategy, to approve and assess the sustainability of the forbearance and closure procedure measures and modification programs.

Special Handling Monitoring Committee (SHMC)
The Special Handling Monitoring Committee (SHMC) is established as a dedicated committee that monitors Corporate watch-listed, problematic and non-performing relationships. The main competences of the SHMC are related to monitoring of customers activities and financial performance as well as to decide on the strategy for handling of problematic Corporate relationships.

Troubled Assets Group Division (TAG)
The TAG has been established as an independent body, reporting directly to the Chief Executive Officer of the Bank. TAG Division is the overall responsible body for the management of the Bank's troubled assets portfolio, for the whole process, from the pre-delinquency status in case of high risk exposures up to legal workout. It ensures close monitoring, tight control and course adjustment taking into account the continuous developments in the macro environment, the regulatory and legal requirements, the international best practices and new or evolved internal requirements.

TAG comprises the Retail TAG Department, the Wholesale TAG Department, Risk and policy Department and TAG Retail Underwriting Department. TAG structure is completely segregated from the Bank's business units both in terms of account management, as well as credit approval process, which ensures transparency, flexibility, better prioritization and management accountability and shifts the management from bad debt minimization to bad debt value management, in line with the Bank's risk appetite.

The TAG cooperates with the Bank`s Risk Division, being responsible for the overall risk management framework and the development and validation of credit assessment methodologies and tools (i.e. models and scorecards). Interaction with the Risk Division is in place with regard to the elaboration, validation and updating of the TAG Credit Policy, evaluation and opinion on TAG business proposals, approval of forbearance measures and modification programs (risk representatives participate in the approval process).
The overall results of the management of troubled assets are presented to the regular Risk Committees.

The key governing principles of the TAG are to:

- Ensure direct top management involvement in troubled assets management and close monitoring of the respective portfolio;

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

Troubled Assets Group Division (TAG) (continued)

- Deploy a sound credit workout strategy through innovative propositions that will lead to viable short and long term solutions, ensuring a consistent approach for managing troubled assets across portfolios;
- Ensure a consistent approach for managing troubled assets across portfolios including through currently applied “COVID-19 cases” framework and special products.;
- Prevent non-performing exposures formation through early intervention and clear definition of primary financial objectives of troubled assets;
- Monitor the loan delinquency statistics, as well as define targeted risk mitigating actions to ensure portfolio risk reduction;
- Target maximization of borrowers who return to performing status through modifications or collections;
- Define criteria to assess the sustainability of proposed forbearance.

Operational targets for Non-performing exposures (NPEs)

In line with the requirements of the supervisory arm of the European Central Bank (ECB) and the Group guidance, the Bank has designed an operational targets framework for NPEs management, supported by several key performance indicators. Pursuant to the said framework, the Bank developed a set of NPEs operational targets together with a detailed NPEs management strategy with a 3-year time horizon, which is henceforth revised annually in order to align with changes in the operating environment and the Bank’s strategic priorities. The Management of the Bank approved a NPEs management strategy for the years 2020-2023, which envisages projected NPEs stock to reach BGN 536 million by the end of 2021, and BGN 446 million (NPE ratio below 5.0%) by the end of 2023.

NPE loans IFRS 9 ECL captures the expected loss related to the forward looking accelerated non-performing exposures management strategy. IFRS 9 does not limit the cash flows that the Bank can expect to receive only to contractual cash flows that are collected from the borrowers. Further it states that credit risk management activities that are aimed at minimizing potential credit losses, such as sales, are integral to a hold-to-collect business model. Accordingly, cash flows that are expected to be recovered from sale of defaulted assets should be included in the measurement of ECLs.

The recoverability of disposable non-performing exposures has been quantified by taking into account Bank’s past practice and future expectations and relevant market information related to bad debt loans sale prices and similar transactions.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit Risk

Credit risk is the risk that a counterparty will be unable to fulfill its payment obligations in full when due. Settlement risk is the risk arising when payments are settled, for example for trades in financial instruments, including derivatives and currency transactions. The risk arises when the Bank remits payments before it can ascertain that the counterparties' payments have been received.
Credit risk arises principally from the corporate and retail lending activities of the Bank, including from credit enhancement provided, such as financial guarantees and letters of credit. The Bank is also exposed to credit risk arising from other activities such as investments in debt securities, trading activities, capital markets and settlement activities. Taking into account that credit risk is the principal risk the Bank is exposed to, it is rigorously managed and is monitored by centralized dedicated risk units, reporting to the Bank Chief Risk Officer and to the Group Chief Risk Officer.

(a) Credit approval process

There are currently two distinct Groups of Credit Committees -Performing Clients Committees and Special Handling Committees.
The performing clients committees are responsible for implementing the functions of credit evaluation, approval and periodic review of performing clients. The mandate is to concurrently meet the objectives of having a robust loans portfolio together with maintaining profits for the Bank and sustainable growth.
The scope of the Special Handling Committees includes the handling of borrowers with Risk Classification Medium and High. Their primary emphasis is placed on accurately evaluating their financial viability in order to define the account strategy.
The segregation of duties ensures independence among executives responsible for the customer relationship, the approval process and the loan disbursement, as well as monitoring of the loan during its lifecycle.

Credit Committees

The credit approval process in Corporate Banking is centralized through establishment of Credit Committees with escalating Credit Approval Levels, in order to manage the corporate credit risk. Main Committees of the Bank are considered to be the following:

- Credit Committees (Central and Local) authorized to approve new financing, renewals or amendments in the existing credit limits, in accordance with their approval authority level, depending on total limit amount and customer risk category (i.e. high, medium or low), as well as the value and type of security;
- Special Handling Credit Committees authorized to approve credit requests and take actions for distressed clients;
- International Credit Committees (Regional and Country) established for credit underwriting to wholesale borrowers for the subsidiaries within the Group, authorized to approve new limits, renewals or amendments to existing limits, in accordance with their approval authority level, depending on total customer exposure and customer risk category (i.e. high, medium or low), as well as the value and type of security; and
- International Special Handling Committees established for handling distressed wholesale borrowers of the subsidiaries within the Group

The Credit Committees meet on a weekly basis or more frequently, if needed.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

Credit Risk Department

The main responsibilities of Credit Risk Department are:

- Review and evaluation of credit requests of:
  - ✓ Domestic large and medium scale corporate entities of every risk category;
  - ✓ Specialized units, such as Project Finance, Factoring;
  - ✓ Cross-border customers; and
  - ✓ Retail sector's customers (small business and individual banking) above a predetermined threshold and for predetermined types of exceptions.
- Issuance of an independent risk opinion for each credit request, which includes:
  - ✓ Assessment of the customer credit profile based on the qualitative and quantitative risk factors identified (market, operations, structural and financial);
  - ✓ A focused sector analysis; and
  - ✓ Recommendations to structure a bankable, well-secured and well-controlled transaction.
- Review and confirmation of the ratings of each separate borrower, to reflect the risks acknowledged;
- Participation in all credit committees (for both performing and TAG customers), as per the credit approval procedures and having voting rights for the local ones.
- Active participation in all external/regulatory audits of the Bank;
- Preparation of specialized reports to International Credit Sector (ICS) on a regular basis, with regards to expired credit reviews, leveraged transactions, as well as various statistics on the existing and newly approved financings at a request;
- Safeguarding compliance of the Lending Units with the approved Bank's policies; and
- Provision of specialized knowledge, expertise and support to other divisions of the Bank, in relation to operational and credit procedures, security policies, new lending products and restructuring schemes.

Retail Banking approval process

The approval process for loans to small businesses (turnover up to BGN 3 million) is centralized following specific guidelines for eligible collaterals as well as the 'four-eyes' principle. The assessment is based on an analysis of the borrower's financial position and statistical scorecards.

The credit approval process for Individual Banking (consumer and mortgage loans) is also centralized. It is based on specialized credit scoring models and credit criteria taking into account the payment behavior, personal wealth and financial position of the borrowers, including the existence of real estate property, the type and quality of securities and other factors. The ongoing monitoring of the portfolio quality and of any other deviations that may arise, leads to an immediate adjustment of the credit policy and procedures, when deemed necessary.

(b) Credit risk monitoring

Credit Control Department

The Bank's Credit Control Department monitors and assesses the quality of all of the Bank's loan portfolios and operates independently from the business units of the Bank. The department reports directly to the CRO.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

(b) Credit risk monitoring (continued)

Credit Control Department (continued)

The main responsibilities of the department are to:

- monitor and review the performance of all of the Bank's loan portfolios;
- conduct field reviews and prepare written reports to the Management on the quality of all of the Bank's loan portfolios and adherence with EBA prevailing regulations;
- supervise, support and maintain the credit rating and impairment systems used to assess the wholesale lending customers;
- monitor on a regular basis and report on a quarterly basis to the Country Risk Committee of risk exposures, along with accompanying analyses;
- participate in the approval of new credit policies and new loan products;
- participate in the Troubled Asset Committee;
- attend meetings of Credit Committees and Special Handling Committees, without voting right;
- monitor and evaluate the efficiency of adopted strategies and proposed solutions in terms of dealing with Non Performing Exposures (NPEs) and the achievement of targets for NPEs reduction;
- formulate the provisioning policy and regularly monitor the adequacy of provisions of all of the Bank's loan portfolios.

Credit Risk Methodology and Capital Adequacy Control Department

The *Credit Risk Methodology and Capital Adequacy Control (CRM-CAC) Department* report to the Bank's CRO.

Specifically, the main responsibilities of the *CRM-CAC Department* are to:

- manage the models development, implementation, maintenance and validation of the IRB models of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) for evaluating credit risk;
- manage the models development, implementation, maintenance and validation of the risk related scoring models;
- manage the models development, implementation, maintenance and validation of the IFRS9 models of 12m ECL and lifetime ECL calculation;
- implementation, monitoring and maintenance of IFRS9 impairment calculation engine;
- implementation, monitoring and maintenance of credit rating systems;
- perform stress tests, both internal and external (EBA/Bulgarian National Bank (BNB)), and maintain the credit risk stress testing infrastructure;
- prepare the credit risk analyses for Internal Capital Adequacy Assessment (ICAAP)/ Pillar 2 purposes;
- prepare the Basel Pillar 3 disclosures for credit risk;

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

- participate in the preparation of the business plan, the NPE targets plan and the recovery plan of the Bank in relation to asset quality and capital requirements for the loan book (projected impairments and RWAs), as well as participate in the relevant committees;
- support the business units in the use of credit risk models in business decisions, for funding purposes, in the capital impact assessment of strategic initiatives and the development and usage of risk related metrics such as risk adjusted pricing, Risk Adjusted Return on Capital (RAROC) etc.;
- monitor the regulatory framework in relation to the above, to perform impact assessment, to initiate and manage relevant projects;
- regularly report to the CRO and Group Chief Risk Officer, to the Management Risk Committee and to the Board Risk Committee on: risk models performance, risk parameters (PD, LGD, EAD), updates on regulatory changes and impact assessment and asset quality reviews.

Market Risk Department

Market Risk Department is responsible for the measurement, monitoring and reporting of the Bank's exposure to counterparty risk, which is the risk of loss due to the customer's failure to meet its contractual obligations in the context of treasury activities, such as securities, derivatives, repos, reverse repos, interbank placings, etc. The Bank sets limits on the level of counterparty risk (see also below 5.2.1 (f) credit risk mitigation) that may be undertaken based mainly on the counterparty's credit rating, as provided by international rating agencies, and the product type (e.g. control limits on net open derivative positions by both amount and term, bonds exposure, interbank transactions and operating account balances). The utilization of the abovementioned limits, any excess of them, as well as the aggregate exposure per counterparty and product type are monitored by the department on a daily basis. Risk mitigation contracts are taken into account for the calculation of the final exposure. In case of uncollateralized derivative transactions, the Bank measures the current exposure along with the potential future exposure (PFE) using financial models. The combined exposure is used for the monitoring of limit utilization.

(c) Credit related commitments

The primary purpose of credit related commitments is to ensure that funds are available to a customer as agreed. Financial guarantee contracts carry the same credit risk as loans since they represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are secured by the underlying shipment of goods to which they relate and therefore carry less risk than a loan. Commitments to extend credit represent contractual commitments to provide credit under pre-specified terms and conditions (note 35) in the form of loans, guarantees or letters of credit for which the Bank usually receives a commitment fee. Such commitments are irrevocable over the life of the facility or revocable only in response to a material adverse effect.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

(d) Concentration risk

The Bank structures the levels of credit risk it undertakes by placing exposure limits by borrower, or groups of borrowers, and by industry segments.
Concentration risk is monitored regularly and reported to the Risk Committee.

e) Rating systems

Rating of wholesale lending exposures

The Bank employs a number of rating models and tools in order to reflect appropriately the risk arising from wholesale lending customers with different characteristics. Accordingly, the Bank employs the following rating models for the wholesale portfolio:

- Moody's Risk Analyst model ("MRA" or "Fundamental Analysis"-"FA") is used to assess the risk of borrowers for Corporate Lending.
- Slotting models: in view of assessing the risk of specialized exposures, which are part of the Specialized Lending corporate portfolio, slotting rating models are employed.
- Internal Credit Rating model ("ICR") is used for those customers that cannot be rated by neither MRA nor Slotting methodology.

Moody's Risk Advisor credit rating system allows the assessment of the creditworthiness of corporate borrowers through the analysis of (a) quantitative criteria (min two financial years' statements) which are compared with the financial statements of a peer group (i.e. companies with similar business activity) and (b) qualitative parameters such as company reputation and status, management characteristics and skills etc. MRA takes into account the entity's balance sheets, income statement accounts and cash flow statements to calculate key ratios. Its ratio analysis includes assessments of each ratio's trend across multiple periods, both in terms of the slope and volatility of the trend. It also compares the value of the ratio for the most recent period with the quartile values for a comparable peer group. Moreover, MRA is supplied with a commonly used set of qualitative factors relating to the quality of the company's management, the standing of the company within its industry and the perceived riskiness of the industry. MRA uses financial data for companies operating on the Bulgarian market.

Rating of wholesale lending exposures (continued)

With reference to Specialized Lending portfolio (for which the Bank is using Slotting rating models) and in line with European Banking Authority (EBA) definitions, it comprises types of exposures towards entities specifically created to finance or operate physical assets, where the primary source of income and repayment of the obligation lies directly with the assets being financed. The rating system New Credit Rating (NCR) is applied to real estate projects, i.e. financing real estate projects (for example, office buildings that can be rented out, commercial areas, residential building, industrial or warehouse areas) where the expected cash flows for the repayment of the loan will be generated by the asset under consideration (leasing payments, rent payments or sale of the asset). The rating system for real estate projects is used for investment real estate (Investors) and real estate in process of development (Developers). According to the slotting methodology, four keys aspects of the project are evaluated: financial stability, characteristics of the asset, stability of the investor/developer, collaterals.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

(e) Rating systems (continued)

The MRA is not employed for certain types of entities that use special characteristics of different accounting methods to prepare their financial statements, such as Insurance companies and brokerage firms. Moreover, entities such as start-ups that have not produced financial information for at least two annual accounting periods are not rated with MRA.
In case a client is not eligible neither for MRA nor rating based on Slotting methodology, the Internal Credit Rating ("ICR") is used. The ICR is based on a thorough analysis of a set of qualitative factors (company management, industry, operating conditions, market sector, collateral servicing the loan, etc.) and quantitative factors (financial indicators such as profitability, leverage, liquidity, etc., derived from the financial statements of the client). Each client must be individually rated, but customers who belong to a group of companies should be considered together. In the event that the related company provides corporate guarantee, then the company, which is the borrower must obtain a credit rating of the company providing the guarantee.

In the context of IFRS9 implementation, the Bank has further enhanced its corporate credit risk assessment models linking risk parameters estimation with macro-economic factors allowing the forecasting of rating transitions under different macroeconomic scenarios (base, adverse and optimistic).

The rating systems described above are an integral part of the wholesale banking decision-making and risk management processes:

- the credit approval or rejection, both at the origination and review process;
- the allocation of competence levels for credit approval;
- the impairment calculation (staging criteria and subsequent ECL estimation of forecasted risk parameters)

Rating of retail lending exposures

The Bank assigns credit scores to its retail customers using a number of statistically-based models both at the origination and on ongoing basis through behavioral scorecards. These models have been developed to predict, on the basis of available information, the probability of default, the loss given default and the exposure at default. They cover the entire spectrum of retail products (credit cards, consumer lending, mortgages and small business loans).

The Bank's models were developed based on historical data and credit bureau data. Behavioral scorecards are calculated automatically on a monthly basis, thus ensuring that the credit risk assessment is up to date.
The models are applied in the credit approval process, the credit limits management, as well as the collection process for the prioritization of the accounts in terms of handling.

In the context of IFRS 9, the Bank has further enhanced its retail credit risk assessment models linking risk parameters estimation with macro-economic factors allowing their forecasting over one year and lifetime horizon under different macroeconomic scenarios (base, adverse and optimistic) and supporting the staging analysis and allocation to risk classes under homogeneous pools.
The Credit Risk Methodology and Capital Adequacy Control Department monitors the capacity of rating models and scoring systems to classify customers according to risk, as well as to predict the probability of default and loss given default and exposure at default on an ongoing basis. The Bank verifies the validity of the rating models and scoring systems on an annual basis and the validation includes both quantitative and qualitative aspects.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

(f) Credit risk mitigation

A key component of the Bank's business strategy is to reduce risk by utilizing various risk mitigating techniques. The most important risk mitigating means are collateral's pledge, guarantees and master netting agreements.

Types of collateral commonly accepted by the Bank

The Bank has internal policies in place which set out the following types of collateral that are usually accepted in a credit relationship:

- Real estate
- Pledge on movable property
- Pledge on commercial enterprises
- Pledge on receivables
- Securities
- Cash
- Letters of guarantees
- Personal guarantees /Sureties/
- Other eligible collaterals

A specific coverage ratio is pre-requisite, upon the credit relationship's approval and on ongoing basis, for each collateral type, as specified in the Bank's credit policy.
For interbank exposures (i.e. reverse repos, derivatives), the Bank accepts as collateral only cash or liquid bonds.

Valuation principles of collaterals

In defining the minimum collateral ratio for loans, the Bank considers all relevant information available, including the collaterals' specific characteristics, if market participants would take those into account when pricing the relevant assets. The valuation and hence eligibility is based on the following factors:

- the collateral's fair value, i.e. the exit price that would be received to sell the asset in an orderly transaction under current market conditions;
- the fair value reflects market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it;
- a reduction in the collateral's value is considered if the type, location or condition (such as deterioration and obsolescence) of the asset indicate so; and
- no collateral value is assigned if a pledge is not legally enforceable.

Collateral policy and documentation

Regarding collaterals, Bank's policy emphasizes the need that collaterals and relevant processes are timely and prudently executed, in order to ensure that collaterals and relevant documentation are legally enforceable at any time. The Bank holds the right to liquidate collateral in the event of the obligor's financial distress and can claim and control cash proceeds from the liquidation process.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

Guarantees

The guarantees used as credit risk mitigation by the Bank are largely issued by central government, local banks and funds (Bulgarian Development Bank and National Guarantee Fund) and international financial institutions (European Investment Fund (EIF), International Financial Corporation (IFC), etc.).

Counterparty risk

The Bank mitigates counterparty risk arising from treasury activities by entering into master netting arrangements and similar agreements, as well as collateral agreements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offset of balance sheet assets and liabilities, as the transactions are usually settled on a gross basis.

However, the respective credit risk is reduced through a master netting agreement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

In the case of derivatives, the Bank makes use of International Swaps and Derivatives Association (ISDA) contracts, which limit the exposure via the application of netting, and Credit Support Annex (CSAs), which further reduce the total exposure with the counterparty. Under these agreements, the total exposure with the counterparty is calculated on a daily basis taking into account any netting arrangements and collaterals.

The same process is applied in the case of repo transactions where standard Global Master Repurchase Agreements (GMRAs) are used. The exposure (the net difference between repo cash and the market value of the securities) is calculated on a daily basis and collateral is transferred between the counterparties thus minimizing the exposure.

5.2.1.1 Maximum exposure to credit risk before collateral held

	As at 31 December	
	2020	**2019**
Loans and advances to banks	516,068	1,702,886
Less: Impairment allowance	(162)	(90)
Loans and advances to customers:		
- Mortgages	2,276,319	2,094,864
- Consumer lending (including credit cards)	1,235,628	1,033,018
- Small Business lending	717,287	760,360
- Corporate lending	3,834,609	3,534,285
Less: Impairment allowance	(264,968)	(310,786)
Trading assets - debt securities	39,643	7,903
Derivative financial instruments	1,352	1,502
Debt securities at fair value through other comprehensive income	987,891	519,643
Debt securities at amortised cost	453,882	40,421
Less: Impairment allowance	(820)	(444)
Other financial assets (*)	22,872	20,136
Less: Impairment allowance	(3,468)	(2,378)
Credit risk exposures relating to off-balance sheet items are as follows (Note 35):		
Guarantees and Letters of credit	238,059	296,053
Loan commitments	1,584,961	1,349,801
Less: Impairment allowance	(521)	(515)
Total	**11,638,632**	**11,046,659**

(*) it refers to financial assets subject to IFRS 9 requirements, which are recognized within other assets

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.1 Maximum exposure to credit risk before collateral held

The above table represents the Bank's maximum credit risk exposure as at 31 December 2020 and 31 December 2019, without taking account of any collateral held or other credit enhancements attached.
For on-balance sheet assets, the exposures set out above are based on the net carrying amounts as reported in the balance sheet.

5.2.1.2 Loans and advances to customers

The section below provides an overview of the Bank's exposure to credit risk arising from its customer lending portfolios.
Loans and advances to customers carried at amortised cost are classified depending on how ECL is measured. Accordingly, loans reported as non-impaired include loans for which a '12-month ECL allowance' is recognized as they exhibit no significant increase in credit risk since initial recognition and loans for which a 'Lifetime ECL allowance' is recognized as they exhibit a significant increase in credit risk since initial recognition but are not considered to be in default .
Credit impaired loans category includes loans that are considered to be in default, for which a loss allowance equal to 'Lifetime ECL' is recognized and loans classified as 'Purchased or originated credit impaired' (POCI) which are always measured on the basis of lifetime ECL.
The Bank's accounting policy regarding impairment of financial assets is set out in Note 2.2.15.

(a) Credit quality of loans and advances to customers

Regulatory definitions

'Default exposures', in line with the regulatory definition of default as adopted by the Bank, include material exposures that are past due more than 90 days, exposures that are assessed by Bank as unlikely to pay as well as those that are assessed for impairment individually and carry an individual impairment allowance. As at 31 December 2020, the Bank's default exposures amounted to BGN 233,195 thousand (2019: BGN 474,157 thousand).
The new definition of default (DoD) for regulatory purposes introduced a new set of standards that will have a significant impact on governance, data, processes, systems and credit models. The new DoD is applicable from 1 January 2021 and is set in the Article 178 of Regulation (EU) No. 575/2013, the Commission Delegated Regulation (EU) 2018/171 and European Banking Authority (EBA) Guidelines (EBA/GL/2016/07). It aims at the harmonization of the definition of default across institutions and jurisdictions in the European Union. In particular, the new DoD guidelines specify that days past due are counted from the date that both materiality thresholds are breached (an absolute amount of the total exposure and a relative as a percentage of the exposure), include conditions for a return to non-defaulted status (introduction of a probation period) and explicit criteria for classification of restructured loans as defaulted when the diminished financial obligation criterion is satisfied (difference between the net present value of cash flows before and after the restructuring exceeds the threshold of 1%).
The Bank will apply the above new provisions of DoD, in order to identify defaulted exposures starting from 1 January 2021, consistently across all its lending portfolios, subject to local regulations and specific credit risk characteristics of each jurisdiction. Accordingly, the definition of default for accounting purposes will be aligned with the new DoD, that will be also be the one used for internal credit risk management purposes. The impact in the Bank's Excepted Credit Loss from the implementation of the new definition of default will be immaterial.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

'Non-performing exposures' as currently monitored and reported by the Bank, in line with the guidelines set by the European Banking Authority (EBA Implementing Technical Standards), include material exposures that are in arrears for more than 90 days, or assessed as unlikely to pay, impaired exposures, exposures categorized as defaulted for regulatory purposes, as well as forborne non performing exposures. The Bank has aligned its accounting definition of default with the EBA definition of default, as described above.

As at 31 December 2020, the Bank's gross amount of non-performing exposures amounted to BGN 535,468 thousand (2019: BGN 620,869 thousand). POCI loans included in non-performing exposures are BGN 84,235 thousand (2019: BGN 104,867 thousand). Correspondingly, 'Performing exposures' include exposures without arrears, those that are less than 90 days past due or are not assessed as unlikely to pay, non-impaired and non-defaulted for regulatory purposes exposures. As at 31 December 2020, the Bank's gross amount of performing exposures amounted to BGN 7,528,375 thousand (2019: BGN 6,801,658 thousand).

'Unlikely to pay' category refers to exposures where a borrower's ability to repay his credit obligations in full without realization of collateral is assessed as unlikely, regardless the existence of any past due amounts or the number of days past due.

Quantitative information

The following tables present the total gross amount, representing the maximum exposure to credit risk before the impairment allowance, of loans and advances that are classified as non-impaired (Stage 1 and Stage 2) and those classified as impaired (Stage 3 and POCI). They also present the total impairment allowance recognized in respect of all loans and advances and credit related commitments, analyzed into individually or collectively assessed, based on how the respective impairment allowance has been calculated, the carrying amount of loans and advances, as well as the value of collateral held to mitigate credit risk.
For credit risk management purposes, the Public Sector, which includes exposures to the central government, local or regional authorities, state-linked companies and entities controlled and fully or partially owned by the state, is incorporated in wholesale lending.
In addition, the value of collateral presented in the tables below is capped to the respective gross loan amount.

The total impairment provision for loans and advances is BGN 264,968 thousand, of which BGN 106,745 thousand represents the individually impaired loans provision and the remaining amount of BGN 158,223 thousand represents the portfolio provision. During 2020, the Bank's total net loans and advances increased by 10%. In order to minimize the potential increase of credit risk exposure, the Bank has focused more on the business with large corporate enterprises with good credit rating or retail customers providing sufficient collateral.

The following table presents information about the credit quality of the gross carrying amount of loans and advances to customers carried at amortised cost, the nominal exposures of credit related commitments and the respective impairment allowance as at 31 December 2020 and 31 December 2019:

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

As at 31 December 2020

	Non-impaired		**Credit-impaired**					**Non-impaired**		**Credit-impaired**					
			Lifetime ECL credit-impaired		POCI		**Total gross carrying amount/ nominal exposure**			Lifetime ECL credit-impaired		POCI		**Carrying amount**	**Value of collateral**
	12-month ECL	Lifetime ECL not credit-impaired	Indivi-dually assessed	Collect-ively assessed	Indivi-dually assessed	Collect-ively assessed		12-month ECL	Lifetime ECL not credit-impaired	Indivi-dually assessed	Collect-ively assessed	Indivi-dually assesse d	Collect-ively assesse d		
Retail Lending	**3,533,933**	**386,366**	**113,899**	**177,439**	**8,173**	**9,424**	**4,229,234**	**(23,444)**	**(22,054)**	**(52,585)**	**(85,958)**	**(849)**	**(623)**	**4,043,721**	***2,938,512***
- Mortgage	1,948,887	157,626	58,749	96,135	6,489	8,433	2,276,319	(3,881)	(3,752)	(23,764)	(35,114)	(347)	(489)	2,208,972	
Value of collateral	*1,923,729*	*150,749*	*40,887*	*85,309*	*6,360*	*7,763*		-	-	-	-	-	-		*2,214,797*
- Consumer lending	1,046,429	137,122		51,677		400	1,235,628	(12,071)	(10,292)	-	(34,353)	-	(15)	1,178,897	
Value of collateral	*32,443*	*4,428*		*309*				-	-	-	-	-	-		*37,180*
- Small business	538,617	91,618	55,150	29,627	1,684	591	717,287	(7,492)	(8,010)	(28,821)	(16,491)	(502)	(119)	655,852	
Value of collateral	*546,566*	*81,877*	*41,807*	*14,074*	*1,668*	*543*									*686,535*
Corporate lending	**2,752,715**	**854,145**	**156,621**	**4,490**	**64,722**	**1,916**	**3,834,609**	**(13,750)**	**(8,557)**	**(48,368)**	**(3,509)**	**(4,945)**	**(326)**	**3,755,154**	**3,246,704**
Value of collateral	*2,208,421*	*841,101*	*127,034*	*3,029*	*65,263*	*1,856*									*3,246,704*
Total	**6,286,648**	**1,240,511**	**270,520**	**181,929**	**72,895**	**11,340**	**8,063,843**	**(37,194)**	**(30,611)**	**(100,953)**	**(89,467)**	**(5,794)**	**(949)**	**7,798,875**	**6,185,216**
Total Value of collateral	**4,711,159**	**1,078,155**	**209,728**	**102,721**	**73,291**	**10,162**									*6,185,216*
Credit related commitments	**1,701,186**	**115,819**	**5,143**	**186**	**543**	**143**	**1,823,020**	**(391)**	**(7)**	**(121)**	**(2)**	**-**	**-**		
Loan commitments	1,468,315	112,092	3,688	180	543	143	1,584,961								
Financial guarantee contracts and other commitments	232,871	3,727	1,455	6			238,059	(391)	(7)	(121)2,	(2)				
Value of collateral	139,895	3,232	397	-											

Quantitative information (continued)

As at 31 December 2019

	Non-impaired		**Credit-impaired**					**Non-impaired**		**Credit-impaired**					
			Lifetime ECL credit-impaired		POCI		**Total gross carrying amount/ nominal exposure**			Lifetime ECL credit-impaired		POCI		**Carrying amount**	**Value of collateral**
	12-month ECL	Lifetime ECL not credit-impaired	Indivi-dually assessed	Collect-ively assessed	Indivi-dually assessed	Collect-ively assessed		12-month ECL	Lifetime ECL not credit-impaired	Indivi-dually assessed	Collect-ively assessed	Indivi-dually assessed	Collect-ively assessed		
Retail Lending	**3,194,766**	**286,619**	**175,142**	**208,414**	**11,546**	**11,755**	**3,888,242**	**(21,500)**	**(12,492)**	**(82,070)**	**(123,897)**	**(6)**	**(155)**	**3,648,122**	**2,720,878**
- Mortgage	1,742,756	129,101	84,014	119,807	9,534	9,652	2,094,864	(2,813)	(2,352)	(36,461)	(62,792)	(6)	(150)	1,990,290	
Value of collateral	*1,710,501*	*120,327*	*56,436*	*100,196*	*8,201*	*8,382*									*2,004,043*
- Consumer lending	904,328	87,681	-	40,554	-	455	1,033,018	(10,541)	(5,416)	-	(25,267)	-	-	991,794	
Value of collateral	*23,016*	*8,776*	-	*304*	-	-									*32,096*
- Small business	547,682	69,837	91,128	48,053	2,012	1,648	760,360	(8,146)	(4,724)	(45,609)	(35,838)	-	(5)	666,038	
Value of collateral	*542,748*	*62,206*	*58,820*	*18,769*	*1,800*	*396*									*684,739*
Corporate lending	**2,847,965**	**470,898**	**125,595**	**6,851**	**80,111**	**2,865**	3,534,285	**(7,414)**	**(7,740)**	**(46,698)**	**(1,737)**	**(6,710)**	**(367)**	**3,463,619**	**2,949,285**
Value of collateral	*2,316,182*	*453,170*	*92,390*	*4,089*	*80,688*	*2,766*									*2,949,285*
Total	**6,042,731**	**757,517**	**300,737**	**215,265**	**91,657**	**14,620**	**7,422,527**	**(28,914)**	**(20,232)**	**(128,768)**	**(125,634)**	**(6,716)**	**(522)**	**7,111,741**	**5,670,163**
Total Value of collateral	***4,592,447***	***644,479***	***207,646***	***123,358***	***90,689***	***11,544***	**-**								***5,670,163***
Credit related commitments	**1,594,573**	**46,860**	**3,448**	**237**	**666**	**70**	**1,645,854**	**(367)**	**(11)**	**(135)**	**(2)**	**-**	**-**	**-**	**-**
Loan commitments	1,305,856	42,878	106	225	666	70	1,349,801	-	-	-	-	-	-	-	-
Financial guarantee contracts and other commitments	288,717	3,982	3,342	12	-	-	296,053	(367)	(11)	(135)	(2)	-	-	-	-

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The Bank assesses the credit quality of its loans and advances to customers and credit related commitments that are subject to ECL. The Bank's internal credit rating systems in the wholesale portfolio are based on a variety of quantitative and qualitative factors, while the credit quality in the retail portfolio is based on their probability of default (PD's).

The following tables present the distribution of the gross carrying amount of loans and advances and the nominal exposure of credit related commitments based on the credit quality classification categories and stage allocation:

		31 December 2020				
		Non-impaired		Credit-impaired		
	Internal credit rating	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	POCI	Total gross carrying amount
Retail Lending						
- Mortgage	PD<2.5%	1,942,391	756	-	-	1,943,147
	2.5%<=PD<4%	671	1,653	-	-	2,324
	4%<=PD<10%		31,585	-	-	31,585
	10%<=PD<16%		55,069	-	-	55,069
	16%<=PD<99.99%	5,825	68,563	-	-	74,388
	100%			154,884	14,922	169,806
- Consumer	PD<2.5%	274	6,719	-	-	6,993
	2.5%<=PD<4%	985,753	931	-	-	986,684
	4%<=PD<10%	54,999	6,721	-	-	61,720
	10%<=PD<16%	2,144	23,784	-	-	25,928
	16%<=PD<99.99%	3,259	98,967	-	-	102,226
	100%	-	-	51,677	400	52,077
- Small business	PD<2.5%	1,532	928	-	-	2,460
	2.5%<=PD<4%	484,095	735	-	-	484,830
	4%<=PD<10%	49,849	12,556	-	-	62,405
	10%<=PD<16%	2,747	24,796	-	-	27,543
	16%<=PD<99.99%	394	52,603	-	-	52,997
	100%	-	-	84,777	2,275	87,052
Corporate Lending						
	Strong	1,422,102	302,791	-	-	1,724,893
	Satisfactory	1,120,788	482,196	-	-	1,602,984
	Watch list	209,825	69,158	-	-	278,983
	Impaired	-	-	161,111	66,638	227,749
Total		**6,286,648**	**1,240,511**	**452,449**	**84,235**	**8,063,843**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

		31 December 2019				
		Non-impaired		Credit-impaired		
	Internal credit rating	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	POCI	Total gross carrying amount
Retail Lending						
- Mortgage	PD<2.5%	1,742,516	851	-	-	**1,743,367**
	2.5%<=PD<4%	183	1,252	-	-	**1,435**
	4%<=PD<10%	-	20,697	-	129	**20,826**
	10%<=PD<16%	-	39,039	-	910	**39,949**
	16%<=PD<99.99%	57	67,262	-	350	**67,669**
	100%	-	-	203,821	17,797	**221,618**
- Consumer	PD<2.5%	93	8,244	-	-	**8,337**
	2.5%<=PD<4%	829,879	2,107	-	-	**831,986**
	4%<=PD<10%	73,643	6,397	-	7	**80,047**
	10%<=PD<16%	494	10,579	-	15	**11,088**
	16%<=PD<99.99%	219	60,354	-	-	**60,573**
	100%	-	-	40,554	433	**40,987**
- Small business	PD<2.5%	3	193	-	-	**196**
	2.5%<=PD<4%	474,270	65	-	-	**474,335**
	4%<=PD<10%	73,400	2,443	-	-	**75,843**
	10%<=PD<16%	9	7,368	-	-	**7,377**
	16%<=PD<99.99%	-	59,768	-	-	**59,768**
	100%	-	-	139,181	3,660	**142,841**
Corporate Lending						
	Strong	1,745,614	243,413	-	-	**1,989,027**
	Satisfactory	923,831	66,363	-	-	**990,194**
	Watch list	178,520	161,122	-	-	**339,642**
	Impaired	-	-	132,446	82,976	**215,422**
Total		**6,042,731**	**757,517**	**516,002**	**106,277**	**7,422,527**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

		31 December 2020			
		Non impaired		Credit-impaired	
	Internal credit rating	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total nominal amount**
Credit Related Commitments					
Retail Lending					
Loan Commitments					
	PD<2.5%	140,802	8,543		149,345
	2.5%<=PD<4%	283,399	705		284,104
	4%<=PD<10%	128,828	3,225		132,053
	10%<=PD<16%	1,992	8,662		10,654
	16%<=PD<99.99%	1,905	6,681		8,586
	100%			206	206
Financial Guarantee contracts and Other Commitments					
	PD<2.5%	20			20
	2.5%<=PD<4%	12,702			12,702
	4%<=PD<10%	14			14
	10%<=PD<16%				-
	16%<=PD<99.99%				-
	100%			6	6
Wholesale Lending					
Loan Commitments					
	Strong	656,917	71,427		728,344
	Satisfactory	237,756	12,131		249,887
	Watch list	16,716	718		17,434
	Impaired			4,348	4,348
Financial Guarantee contracts and Other Commitments					
	Strong	150,483	921		151,404
	Satisfactory	66,104	2,705		68,809
	Watch list	3,548	100		3,648
	Impaired			1,456	1,456
Total		**1,701,186**	**115,818**	**6,016**	**1,823,020**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

		31 December 2019			
		Non impaired		Credit-impaired	
	Internal credit rating	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total nominal amount**
Credit Related Commitments					
Retail Lending					
Loan Commitments					
	PD<2.5%	150,681	10,048	-	**160,729**
	2.5%<=PD<4%	227,495	1,837	-	**229,332**
	4%<=PD<10%	138,722	5,238	-	**143,960**
	10%<=PD<16%	306	5,683	-	**5,989**
	16%<=PD<99.99%	161	6,352	-	**6,513**
	100%	-	-	114	**114**
Financial Guarantee contracts and Other Commitments					
	PD<2.5%	11,065	-	-	**11,065**
	2.5%<=PD<4%	4,939	-	-	**4,939**
	100%	-	-	6	**6**
Wholesale Lending					
Loan Commitments					
	Strong	503,235	11,760	-	**514,995**
	Satisfactory	271,376	1,916	-	**273,292**
	Watch list	13,880	45	-	**13,925**
	Impaired	-	-	952	**952**
Financial Guarantee contracts and Other Commitments	Strong	230,271	3,027	-	**233,298**
	Satisfactory	30,286	-	-	**30,286**
	Watch list	12,157	954	-	**13,111**
	Impaired			3,348	**3,348**
Total		**1,594,574**	**46,860**	**4,420**	**1,645,854**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The table below depicts the internal credit rating bands (MRA/ NCR/ ICR rating scale) for the wholesale portfolio that correspond to the credit quality classification categories presented in the above tables, 1st and only criteria for category assignment being the borrower's stage.

Quality classification	Stage	Rating (MRA/ ICR/ NCR)
Strong	Stage 1	1-4
Satisfactory	Stage 1	4,1-8,6
Watchlist	Stage 2	1.2-9.7
Impaired	Stage 3	3.2-11

The following tables present the movement of the gross carrying amounts for loans and advances to customers by product line by reference to opening and closing balances for the reporting period from 01.01.2020 to 31.12.2020:

	31 December 2020																
	Wholesale				Mortgage				Consumer				Small Busines				
	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired -Stage 3	POCI	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired -Stage 3	POCI	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired -Stage 3	POCI	Total
Gross carrying amount at 1 January	2,847,965	470,898	132,446	82,976	1,742,756	129,101	203,821	19,186	904,328	87,681	40,554	455	547,682	69,837	139,181	3,660	7,422,527
New loans and advances originated or purchased	672,663				445,282				362,725				127,323				1,607,994
Arising from merger	15,932	32	1,193										5,003	290	266		22,716
Transfer between stages:																	
-to 12-month ECL	51,454	(50,770)	(684)		37,530	(36,727)	(803)		24,864	(24,639)	(225)		21,853	(21,773)	(80)		(0)
-to lifetime ECL	(443,328)	443,328	-		(84,242)	84,242	-		(78,417)	78,417	-		(61,698)	61,698	-		-
-to lifetime ECL credit-impaired loans	(39,517)	(21,825)	61,342		(5,552)	(19,094)	24,645		(8,892)	(19,208)	28,101		(4,920)	(11,127)	16,047		-
Loans and advances derecognised			(9,022)				(6,607)				(56)				(10,833)		(26,518)
Amounts written-off			(28,138)				(39,015)				(12,126)				(44,642)		(123,921)
Repayments	(459,498)	(26,154)	(9,302)		(186,291)	(13,884)	(15,893)		(136,038)	(12,792)	(1,836)		(95,056)	(11,591)	(19,243)		(987,578)
Foreign exchange differences and other movements	107,044	38,636	13,276	(16,338)	(596)	13,988	(11,264)	(4,264)	(22,141)	27,663	(2,735)	(55)	(1,570)	4,284	4,081	(1,385)	148,623
Gross carrying amount at 31 December	2,752,715	854,145	161,111	66,638	1,948,887	157,626	154,884	14,922	1,046,429	137,122	51,677	400	538,617	91,618	84,777	2,275	8,063,843
Impairment allowance	(13,750)	(8,557)	(51,877)	(5,271)	(3,881)	(3,752)	(58,878)	(836)	(12,071)	(10,292)	(34,353)	(15)	(7,492)	(8,010)	(45 312)	(621)	(264,968)
Carrying amount at 31 December	2,738,965	845,588	109,234	61,367	1,945,006	153,874	96,006	14,086	1,034,358	126,830	17,324	385	531,125	83,608	39,465	1 654	7,798,875

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

	31 December 2019																
	Wholesale				Mortgage				Consumer				Small Busines				
	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired -Stage 3	POCI	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired -Stage 3	POCI	Total
Gross carrying amount at 1 January	**1,893,769**	**335,201**	**135,345**	**536**	**1,369,416**	**121,637**	**253,048**	**6,929**	**679,571**	**68,220**	**44,429**	**54**	**437,211**	**55,780**	**205,168**	**1,870**	**5,608,184**
New loans and advances originated or purchased	475,782	-	-	-	358,029	-	-	582	254,286	-	-	-	145,203	-	-	-	**1,233,882**
Arising from merger	741,643	-	-	117,223	218,396	-	-	12,169	137,249	-	-	1,758	69,527	-	-	2,416	**1,300,381**
-to 12-month ECL	*18,966*	*(17,870)*	*(1,096)*	-	*41,231*	*(38,956)*	*(2,275)*	-	*20,737*	*(20,527)*	*(210)*	-	*16,504*	*(16,404)*	*(100)*	-	-
-to lifetime ECL	*(168,695)*	*169,284*	*(589)*	-	*(56,877)*	*74,349*	*(17,472)*	-	*(42,157)*	*47,606*	*(5,449)*	-	*(34,114)*	*38,245*	*(4,131)*	-	-
-to lifetime ECL credit-impaired loans	*(8,779)*	*(23,165)*	*31,944*	-	*(4,615)*	*(17,929)*	*22,544*	-	*(7,222)*	*(9,308)*	*16,530*	-	*(5,324)*	*(5,853)*	*11,177*	-	-
Loans and advances derecognised	-	-	(1,119)	-	-	-	(1,373)	-	-	-	-	-	-	-	(620)	-	**(3,112)**
Amounts written-off	-	-	(22,784)	(2)	-	-	(41,737)	(1,085)	-	-	(13,317)	(5)	-	-	(53,173)	(12)	**(132,115)**
Repayments	(90,656)	(3,609)	(3,591)	-	(88,409)	(5,476)	(13,607)	-	(93,116)	(6,986)	(2,087)	-	(54,907)	(4,739)	(6,428)	-	**(373,611)**
Foreign exchange differences and other movements	(14,065)	11,057	(5,664)	(34,781)	(94,415)	(4,524)	4,693	591	(45,020)	8,676	658	(1,352)	(26,418)	2,808	(12,712)	(614)	**(211,082)**
Gross carrying amount at 31 December	**2,847,965**	**470,898**	**132,446**	**82,976**	**1,742,756**	**129,101**	**203,821**	**19,186**	**904,328**	**87,681**	**40,554**	**455**	**547,682**	**69,837**	**139,181**	**3,660**	**7,422,527**
Impairment allowance	(7,414)	(7,740)	(48,435)	(7,077)	(2,813)	(2,352)	(99,253)	(156)	(10,541)	(5,416)	(25,267)	-	(8,146)	(4,724)	(81,447)	(5)	**(310,786)**
Carrying amount at 31 December	**2,840,551**	**463,158**	**84,011**	**75,899**	**1,739,943**	**126,749**	**104,568**	**19,030**	**893,787**	**82,265**	**15,287**	**455**	**539,536**	**65,113**	**57,734**	**3,655**	**7,111,741**

Loans and advances derecognized during the year present loans sold and those that are modified (where the modification resulted in de-recognition) during the period.

Credit impaired loans and advances to customers

The following table presents the ageing analysis of credit impaired (Stage 3) loans and advances by product line at their gross carrying amounts, as well as the respective cumulative loss allowance:

	31 December 2020								
	Retail lending								
	Mortgage	**POCI**	**Consumer**	**POCI**	**Small business**	**POCI**	**Corporate lending**	**POCI**	**(Lifetime ECL credit-impaired)**
up to 90 days	62,249	6,476	18,920	15	25,358	452	96,196	53,399	**263,065**
90 to 179 days	10,613	391	8,651	-	4,346	44	6,245	1,384	**31,674**
180 to 360 days	4,398	639	9,235	2	2,020	12	2,946	-	**19,252**
more than 360 days	77,624	7,416	14,870	384	53,053	1,766	55,723	11,855	**222,693**
Gross carrying amount	**154,884**	**14,922**	**51,677**	**400**	**84,777**	**2,275**	**161,111**	**66,638**	**536,683**
Impairment Allowance	(58,878)	(836)	(34,353)	(15)	(45,312)	(621)	(51,877)	(5,271)	**(197,163)**
Carrying amount	**96,006**	**14,086**	**17,324**	**385**	**39,465**	**1,654**	**109,234**	**61,367**	**339,521**
Value of collateral	**126,196**	**14,122**	**309**	**-**	**55,880**	**2,211**	**130,063**	**67,120**	**395,901**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

	31 December 2019								
	Retail lending								
	Mortgage	POCI	Consumer	POCI	Small business	POCI	Corporate lending	POCI	(Lifetime ECL credit-impaired)
up to 90 days	56,581	6,107	12,583	25	20,618	130	59,092	59,683	**214,819**
90 to 179 days	11,459	450	6,340	4	5,170	81	17,879	252	**41,635**
180 to 360 days	5,385	1,356	7,677	73	3,906	211	7,927	350	**26,885**
more than 360 days	130,396	9,884	13,954	332	109,487	3,238	47,548	22,691	**337,530**
Gross carrying amount	**203,821**	**17,797**	**40,554**	**434**	**139,181**	**3,660**	**132,446**	**82,976**	**620,869**
Impairment Allowance	(99,253)	(156)	(25,267)	-	(81,447)	(5)	(48,435)	(7,077)	**(261,640)**
Carrying amount	**104,568**	**17,641**	**15,287**	**434**	**57,734**	**3,655**	**84,011**	**75,899**	**359,229**
Value of collateral	**156,632**		**304**		**77,589**		**96,479**		**331,004**

(b) Collaterals and repossessed collaterals

Collaterals

The Loan-to-Value (LTV) ratio of the mortgage lending reflects the gross loan exposure at the balance sheet date over the market value of the property held as collateral.
The LTV ratio of the mortgage portfolio is presented below:

	As at 31 December:	
	2020	**2019**
Mortgages		
Less than 50%	436,734	394,092
50%-70%	617,077	534,966
71%-80%	533,918	440,167
81%-90%	387,465	333,476
91%-100%	54,844	65,573
101%-120%	105,680	121,382
121%-150%	64,148	80,851
Greater than 150%	76,453	124,357
Total exposure	**2,276,319**	**2,094,864**
Average LTV	**59.20%**	**60.35%**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(b) Collaterals and repossessed collaterals (continued)

Collaterals type held as security and other credit enhancements are presented in the table below:

Type of exposure	**Percentage of exposure that is subject to collateral requirements**		**Principal type of collateral held**
	31.12.2020	**31.12.2019**	
Trading derivative assets	100	100	Cash
Derivative financial instruments	100	100	Cash
Loans and advances to retail customers			
Small Banking Business - Secured loans	100	100	Properties (residential, commercial, administrative), cash collaterals, guarantees, equipment
Small Banking Business - Unsecured loans	below 100, not fixed % of coverage	below 100, not fixed % of coverage	Properties (residential, commercial, administrative), cash collaterals, guarantees, equipment
Small Banking Business - Factoring	100	100	Factoring invoices
Mortgage lending	100	100	Residential property
Consumer lending incl. credit cards	-	-	None
Loans and advances to wholesale customers			
Wholesale - Factoring	100	100	Factoring invoices
Wholesale lending	not fixed obligatory % of coverage	not fixed obligatory % of coverage	Properties (residential, commercial, administrative), cash collaterals, equipment

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(b) Collaterals and repossessed collaterals (continued)

The breakdown of collateral and guarantees is presented below:

	As at 31 December 2020				
	Value of collateral received				
	Real Estate	Financial	Other Collateral	Total	Guarantee received
Retail Lending	2,592,524	56,884	289,104	2,938,512	8,287
Wholesale Lending	1,700,517	193,654	1,352,533	3,246,704	135,237
Total	**4,293,041**	**250,538**	**1,641,637**	**6,185,216**	**143,524**

	As at 31 December 2019			
	Value of collateral received			
	Real Estate	Financial	Other Collateral	Total
Retail Lending	2,534,131	117,799	68,948	2,720,878
Wholesale Lending	2,298,721	331,093	319,471	2,949,285
Total	**4,832,852**	**448,892**	**388,419**	**5,670,163**

The fair value of the presented collaterals in the tables above is capped at the amount of the loan outstanding balance.

Repossessed collaterals

The Bank recognizes collateral assets on the balance sheet by taking possession usually through legal processes or by calling upon other credit enhancements. The main type of collateral that the Bank repossesses against repayment or reduction of the outstanding loan is real estate, which is recognized within repossessed assets. They are included in Other assets (Note 23). Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale. In cases where the Bank makes use of repossessed collaterals as part of its operations, they are classified as own-used or investment properties, as appropriate.

The following tables present a summary of collaterals that the Bank took possession, and were recognized as repossessed assets, as well as the movement during 2020 and 2019:

Nature of assets	**2020**	**2019**
Commercial property and other moveable assets	11,513	7,478
Residential property	3,106	3,294
Land	1,028	1,227
Total	**15,647**	**11,999**

Reconciliation of Level 3 movement:	**2020**	**2019**
Balance at 1 January	**11,999**	**8,488**
Additional	4,994	5,401
Sales	(570)	(1,415)
Write offs	(76)	-
Impairment	(700)	(475)
Balance at 31 December	**15,647**	**11,999**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(b) Collaterals and repossessed collaterals (continued)

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Class property	Fair value 31/12/2020 (BGN th)	Valuation technique	Input	Range (BGN) (weighted average) 2020	Range (BGN) (weighted average) 2019	Connection between the unobservable input and FV
Land	1,028	Market comparison approach	price per m2	0.51 - 853.17 (18.81)	0.51 - 90.63 (12.64)	A significant increase in price per m2 would result in a higher fair value
Residential	3,104	Market comparison approach	price per m2	1.51 - 1282.77 (155.23)	1.51 - 1502.08 (335.12)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	-	41.97	A significant increase in price per m2 would result in a higher fair value
Mixed	11,459	Market comparison approach	price per m2	35.11 - 1549.02 (245.08)	37.47 - 1,451.23 (264.71)	A significant increase in price per m2 would result in a higher fair value
		Income approach	rent per m2	2.72 - 10.50 (7.03)	1.93 - 7.10 (3.06)	A significant increase in rent per m2 would result in a higher fair value
		Cost approach	price per m2	6.59 - 180.40 (93.97)	6.59 - 100.00 (49.03)	A significant increase in price per m2 would result in a higher fair value

(c) Geographical and industry concentrations of loans and advances to customers

The Bank holds diversified portfolios across markets and implements limits on concentrations arising from the geographical location or the activity of groups of borrowers that could be similarly affected by changes in economic or other conditions, in order to mitigate credit risk.

The following table breaks down the Bank’s exposure into loans and advances to customers and credit related commitments at their gross carrying amount and nominal amount respectively by stage, product line, industry and geographical region as well as the impairment allowance.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(c) Geographical and industry concentrations of loans and advances to customers (continued)

31 December 2020

	Bulgaria					Greece					Rest of Europe					Other countries				
	Gross carrying/nominal amount					Gross carrying/nominal amount					Gross carrying/nominal amount					Gross carrying/nominal amount				
	12-month ECL-Stage 1	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**POCI**	**Impair-ment allowance**	**12-month ECL-Stage 1**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**POCI**	**Impair-ment allowance**	**12-month ECL-Stage 1**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**POCI**	**Impair-ment allowance**	**12-month ECL-Stage 1**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**POCI**	**Impair-ment allowance**
Retail Lending	***3,501,733***	**382,468**	**288,137**	**17,281**	***(183,907)***	**4,990**	**676**	**277**	**113**	**(210)**	***20,854***	***2,996***	***1,535***	**20**	**(744)**	**6,356**	**226**	**1,389**	**183**	**(652)**
-Mortgage	*1,929,115*	*154,921*	*152,344*	*14,637*	*(66,364)*	*2,661*	*516*	*130*	*82*	*(84)*	*12,325*	*2,110*	*1,169*	*20*	*(364)*	*4,786*	*79*	*1,241*	*183*	*(534)*
-Consumer	*1,034,001*	*135,935*	*51,016*	*369*	*(56,108)*	*2,329*	*160*	*147*	*31*	*(126)*	*8,529*	*886*	*366*	-	*(380)*	*1,570*	*141*	*148*	-	*(118)*
-Small business	*538,617*	*91,612*	*84,777*	*2,275*	*(61,435)*						-	-	-	-	-	-	*6*	-	-	-
Wholesale Lending	**2,693,053**	**850,213**	**161,111**	**66,638**	***(79,086)***	-	-	-	-	-	***54,948***	-	-	-	***(341)***	**4,714**	**3,932**	-	-	***(28)***
-Commerce and services	*80,250*	*4,709*	*16,092*	*74*	*(12,714)*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Manufacturing	*764,998*	*127,930*	*41,863*	*2,772*	*(16,080)*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Construction	*126,396*	*971*	*9,646*	*3*	*(3,470)*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Tourism	*33,126*		*49*	*575*	*(98)*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Energy	*320,362*	*23,397*	*9,241*	*26,200*	*(4,017)*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Other	*1,367,921*	*693,206*	*84,220*	*37,014*	*(42,707)*	-	-	-	-	-	*54,948*	-	-	-	*(341)*	*4,714*	*3,932*	-	-	*(28)*
Total	***6,194,786***	***1,232,681***	***449,248***	***83,919***	***(262,993)***	***4 990***	***676***	***277***	***113***	***(210)***	***75,802***	***2,996***	***1,535***	***20***	***(1,085)***	***11,070***	***4,158***	***1,389***	***183***	***(680)***
Credit related commitments	***1,636,103***	***115,369***	***5,330***	***682***	**(521)**	***3,943***	**249**	-	**4**	-	***60,556***	**185**	-	-	-	**584**	**15**	-	-	-
Loan commitments	*1,403,397*	*111,643*	*3,868*	*682*	-	*3,778*	*249*	-	*4*	-	*60,556*	*185*	-	-	-	*584*	*15*	-	-	-
Financial guarantee contracts and other commitments	*232,706*	*3,726*	*1,462*	-	*(521)*	*165*	-	-	-	-	-	-	-	-	-	-	-	-	-	-

31 December 2019

	Bulgaria					Greece					Rest of Europe					Other countries			
	Gross carrying/nominal amount					Gross carrying/nominal amount					Gross carrying/nominal amount					Gross carrying/nominal amount			
	12-month ECL-Stage 1	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**POCI**	**Impair-ment allowance**	**12-month ECL-Stage 1**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**POCI**	**Impair-ment allowance**	**12-month ECL-Stage 1**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**POCI**	**Impair-ment allowance**	**12-month ECL-Stage 1**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**Impair-ment allowance**
Retail Lending	**3,167,602**	**282,997**	**379,530**	**23,168**	**(238,670)**	**4,553**	**714**	**628**	**119**	**(300)**	**17,094**	**2,345**	**1,910**	**14**	**(477)**	**5,517**	**563**	**1,488**	**(673)**
-Mortgage	1,726,415	126,291	200,069	19,083	(103,482)	2,589	516	574	89	(223)	9,616	1,887	1,769	14	(275)	4,136	407	1,409	**(594)**
-Consumer	893,519	86,869	40,280	425	(40,866)	1,964	198	54	30	(77)	7,470	458	141	-	(202)	1,375	156	79	**(79)**
-Small business	547,668	69,837	139,181	3,660	(94,322)	-	-	-	-	-	8	-	-	-	-	6	-	-	-
Wholesale Lending	**2,798,078**	**470,898**	**132,446**	**82,976**	**(70,619)**	-	-	-	-	-	**40,108**	-	-	-	**(35)**	**9,779**	-	-	**(12)**
-Commerce and services	940,519	12,725	32,329	40,046	(25,381)	-	-	-	-	-	-	-	-	-	-	5,973	-	-	**(6)**
-Manufacturing	750,100	100,296	14,829	7,735	(9,238)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Construction	312,407	2,183	16,421	31,327	(6,565)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Tourism	227,604	132,821	19,633	2,324	(3,139)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Energy	85,445	-	25,022	209	(8,371)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Other	482,003	222,873	24,212	1,335	(17,925)	-	-	-	-	-	40,108	-	-	-	(35)	3,806	-	-	**(7)**
Total	**5,965,680**	**753,895**	**511,976**	**106,144**	**(309,289)**	**4,553**	**714**	**628**	**119**	**(300)**	**57,202**	**2,345**	**1,910**	**14**	**(512)**	**15,296**	**563**	**1,488**	**(686)**
Credit related commitments	**1,529,822**	**46,532**	**3,685**	**732**	**(515)**	**3,906**	**172**	-	**4**	-	**60,279**	**137**	-	-	-	**567**	**18**	-	-
Loan commitments	1,241,299	42,550	331	732	-	3,741	172	-	4	-	60,279	137	-	-	-	538	18	-	-
Financial guarantee contracts and other commitments	288,523	3,982	3,354	-	(515)	165	-	-	-	-	-	-	-	-	-	29	-	-	-

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities

Modifications of the loans' contractual terms may arise due to various factors, such as changes in market conditions, customer retention and other factors as well as due to the potential deterioration in the borrowers' financial condition. The Bank has employed a range of forbearance options in order to enhance the management of customer relationships and the effectiveness of collection efforts, as well as to improve the recoverability of cash flows and minimize credit losses for both retail and wholesale portfolios.

Forbearance practices' classification

Forbearance practices as monitored and reported by the Bank based on the European Banking Authority Implementing Technical Standards (EBA ITS) guidelines occur only in the cases where the contractual payment terms of a loan have been modified, as the borrower is considered unable to comply with the existing loan's terms due to apparent financial difficulties, and the Bank grants a concession by providing more favorable terms and conditions that it would not otherwise consider had the borrower not been in financial difficulties.

All other types of modifications granted by the Bank, where there is no apparent financial difficulty of the borrower and may be driven by factors of a business nature are not classified as forbearance measures.

Forbearance solutions

Forbearance solutions granted following an assessment of the borrower's ability and willingness to repay and can be of a short or longer term nature. The objective is to assist financially stressed borrowers by rearranging their repayment cash outflows into a sustainable modification, and at the same time, protect the Bank from suffering credit losses. The Bank deploys targeted segmentation strategies with the objective to tailor different short or long term and sustainable management solutions to selected groups of borrowers for addressing their specific financial needs.

The nature and type of forbearance options may include but is not necessarily limited to, one or more of the following:

- debt consolidations, whereby existing loan balances of the borrower are combined in a single loan;
- interest-only payments;
- grace period;
- reduced payment plans;
- arrears repayment plan;
- loan term extensions/ partial debt forgiveness/ write down;
- interest rate reduction;
- split balance (combination of forbearance options that mainly includes capitalization of arrears, loan term extensions and interest rate reduction).
- operational restructuring

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities (continued)

Specifically for unsecured consumer loans (including credit cards), forbearance programs (e.g. term extensions), are applied in combination with debt consolidation whereby all existing consumer balances are pooled together. Forbearance solutions are applied in order to ensure a sufficient decrease on installment and a viable solution for the borrower. In selected cases, the debt consolidations may be combined with mortgage establishment to convert unsecured lending exposures to secured ones.
In the case of mortgage loans, a decrease of installment may be achieved through forbearance measures such as extended payment periods, capitalization of arrears, split balance and reduced payment plans.

Wholesale exposures are subject to forbearance when there are indications of financial difficulties of the borrower, evidenced by a combination of factors including the deterioration of financials, credit rating downgrade, payment delays and other.

Retail business units are responsible for all first modifications of loans delinquent from 1 to 89 dpd.

The Troubled Assets Division (TAG) is the independent body, which has the overall responsibility for the management of the Bank’s troubled assets portfolio, including forborne loans, in alignment with the acting regulations. TAG ensures tight control and close monitoring of the effectiveness of the forbearance schemes and the performance of the portfolios under management. TAG also warrants the continuous improvement and adjustment of policies and procedures, by performing quality assurance reviews and by assessing and taking into account the macroeconomic developments, the regulatory and legal requirements and changes, international best practices, and any existing or new internal requirements.

TAG cooperates with Risk Management to reach a mutual understanding and develop an appropriate methodology for the evaluation of the risks inherent in every type of modification and delinquency bucket, per portfolio.

i. Classification of Forborne loans

Forborne loans are classified either as non-impaired (Stage 2), or impaired (Stage 3) by assessing their delinquency and credit quality status.
Credit impaired forborne loans enter initially a probation period of one year where the borrowers’ payment performance is closely monitored. If at the end of the abovementioned period, the borrowers have complied with the terms of the program and there are no past due amounts and concerns regarding the loans’ full repayment, the loans are then reported as non-impaired forborne loans (Stage 2). In addition, non-impaired forborne loans, including those that were previously classified as credit impaired and complied with the terms of the program, are monitored over a period of two years. If, at the end of that period, the borrowers have made payments more than an insignificant aggregate amount, there are no past due amounts over 30 days and the loans are neither credit impaired nor any other SICR criteria are met they exit forborne status and are classified as Stage 1.
Particularly, the category of credit impaired forborne loans includes those that (a) at the date when forbearance measures were granted, were more than 90 days past due or assessed as unlikely to pay, (b) at the end of the one year probation period met the criteria of entering the non - impaired status and during the two years monitoring period new forbearance measures were extended or became more than 30 days past due, and (c) were initially classified as non- impaired and during the two years monitoring period met the criteria for entering the credit impaired status.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities (continued)

Furthermore, forborne loans that fail to perform under the new modified terms and are subsequently denounced cease to be monitored as part of the Bank's forbearance activities and are reported as denounced credit impaired loans (Stage 3) consistently with the Bank's management and monitoring of all denounced loans.

ii. Loan restructuring

In cases where the contractual cash flows of a forborne loan have been substantially modified, the original forborne loan is de-recognized and a new loan is recognized.The Bank records the modified asset as a 'new' financial asset at fair value and the difference with the carrying amount of the existing one is recorded in the income statement as derecognition gain or loss.

In some circumstances there may be evidence that the new loan is credit-impaired at initial recognition, and thus, it is recognized as an originated credit-impaired (POCI) loan.

In cases where the modification, as a result of forbearance measures, is not considered substantial, the Bank recalculates the gross carrying amount of the loan and recognizes the difference as a modification gain or loss in the income statement. The Bank continues to monitor the modified forborne loan in order to determine if the financial asset exhibits significant increase in credit risk since initial recognition during the forbearance period.

The following tables present an analysis of Bank's forborne activities for loans measured at amortised cost. The relevant tables below are presented on a gross carrying amount basis, while cumulative impairment allowance is presented separately, in line with the Bank's internal credit risk monitoring process under IFRS 9 principles.

The following table presents a summary of the types of the Bank's forborne activities:

Forbearance measures:	**2020**	**2019**
Loan term extension	180,934	186,316
Reduced payment below interest owed	22,240	20,860
Interest rate reduction	142,440	219,756
Reduced payment above interest owed	17,644	24,169
Arrears repayment plan	215	53,063
Interest only	18,230	9,509
Grace period	55,149	-
Other	198	-
Total gross carrying amount	**437,050**	**513,673**
Less: cumulative impairment allowance	(61,221)	(51,225)
Total carrying amount	**375,829**	**462,448**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities (continued)

The following tables present a summary of the credit quality of forborne loans and advances to customers:

	As at 31 December 2020		
	Total loans and advances	**Forborne loans and advances**	**% of Forborne loans and advances**
Gross carrying amounts:			
12-month ECL	6,286,648	**-**	-
Lifetime ECL non credit-impaired	1,240,511	266,160	**21%**
Lifetime ECL credit-impaired	536,684	170,890	**32%**
Total Gross Amount	**8,063,843**	**437,050**	**5%**
Cumulative ECL Loss allowance :			
12-month ECL allowance	**(37,194)**	**-**	
Lifetime ECL (not credit-impaired) allowance	**(30,611)**	**(6,967)**	
Lifetime ECL (credit-impaired) allowance of which:	**(197,163)**	**(54,254)**	
- *Individually assessed*	*(106,747)*	*(27,949)*	
- *Collectively assessed*	*(90,416)*	*(26,305)*	
Total carrying amount	**7,798,875**	**375,829**	**5%**
Collateral received	**6,185,216**	**376,970**	

	As at 31 December 2019		
	Total loans and advances	**Forborne loans and advances**	**% of Forborne loans and advances**
Gross carrying amounts:			
12-month ECL	6,042,731	-	**-**
Lifetime ECL non credit-impaired	758,927	361,279	**48%**
Lifetime ECL credit-impaired	620,869	152,394	**25%**
Total Gross Amount	**7,422,527**	**513,673**	**7%**
Cumulative ECL Loss allowance :			
12-month ECL allowance	(28,914)	-	-
Lifetime ECL (not credit-impaired) allowance	(20,232)	(4,909)	-
Lifetime ECL (credit-impaired) allowance of which:	(261,640)	(46,316)	-
- *Individually assessed*	*(135,484)*	*(21,278)*	-
- *Collectively assessed*	*(126,155)*	*(25,038)*	-
Total carrying amount	**7,111,741**	**462,448**	**7%**
Collateral received	**5,670,163**	**449,798**	

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities (continued)

The following table presents the movement of forborne loans and advances:

Gross carrying amount at 1 January 2019	**548,680**
Forbearance measures in the year	40,411
Repayment of loans	(16,165)
Write-offs of forborne loans	(7,004)
Loans and advances that exited forbearance status	(41,162)
Other	(11,087)
Less cumulative impairment allowance	(51,225)
Carrying amount at 31 December 2019	**462,448**
Gross carrying amount at 1 January 2020	**513,673**
Forbearance measures in the year	115,706
Repayment of loans	(16,830)
Write-offs of forborne loans	(12,604)
Loans and advances that exited forbearance status	(139,848)
Other	(23,047)
Less cumulative impairment allowance	(61,221)
Carrying amount at 31 December 2020	**375,829**

The following table presents the Bank's exposure to forborne loans and advances by product line:

	As at 31 December	
	2020	**2019**
Retail Lending	**175,039**	**165,128**
- Mortgage	96,174	104,905
- Consumer	36,300	27,884
- Small business	42,565	32,339
Wholesale Lending	**262,011**	**348,545**
Total gross carrying amount	**437,050**	**513,673**
Less cumulative impairment allowance	(61,221)	(51,225)
Total carrying amount	**375,829**	**462,448**

The following table presents the Bank's exposure to forborne loans and advances by geographical region:

	As at 31 December	
	2020	**2019**
Bulgaria	436,700	513,462
Greece	170	67
Rest of Europe	174	143
Other countries	6	1
Total gross carrying amount	**437,050**	**513,673**
Less cumulative impairment allowance	(61,221)	(51,225)
Total carrying amount	**375,829**	**462,448**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities (continued)

The following table provides information on modifications due to forbearance measures on lending exposures which have not resulted in derecognition. Such financial assets were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

Modified loans during the year	As at 31 December	
	2020	**2019**
Gross carrying amount at 31 December	281,937	115,777
Modification (loss)	(2,722)	(3,337)
Modified loans since initial recognition		
Gross carrying amount at 31 December for which loss allowance has changed to 12-month ECL measurement	127,691	16,138

(e) Covid-19 relief measures

The Bank applies the terms of the framework for deferral and settlement of liabilities payable to banks (‘moratoria’) as it offers deferral of liabilities to its clients on existing loan agreements – individuals and companies who face or expect to face difficulties in the repayment of their loans in relation to the COVID-19 pandemic.

Covid-19 relief measures provided by the Bank to the eligible borrowers are mainly in the form of deferral of payments of interest and principal on loan instruments up to six months along with the extension of the respective loans’ maturity with the respective period.

Based on recent banking regulators and accounting guidances (EBA, ECB, IASB), Covid-19 relief measures should neither be treated as forbearance nor automatically trigger a significant increase in credit risk. Such measures are accounted for as modifications, granted for other than forbearance reasons.

The following table provides information regarding lending exposures subject to moratoria and government support measures :

	As at 31 December 2020 Lending Expoures subject to:	
	Moratoria	**Government support measures**
Consumer lending (including credit cards)	102,322	4,025
Small Business lending	119,057	11,357
Mortgages	171,058	-
Corporate lending	801,706	10,771
Gross carrying amount	**1,194,143**	**26,153**
Less Allowance for impairment losses	**(34,344)**	**(562)**
Net carrying amount	**1,159,799**	**25,591**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(e) Covid-19 relief measures (continued)

Government support measures

In the beginning of the pandemic, Bulgaria has had a sound fiscal position and introduced a package of measures to support the economy during the crisis period. As part of the package, the government initiated several measures to handle the negative impact of the Covid-19 crisis on the Bulgarian economic development. Major fiscal measures implemented in 2020 include tax breaks and a reduced VAT rate from 20% to 9% for certain foods and services which is going to remain in place by the end of 2021. Expenditures in the support of the households were made such as, bonuses to pensions, increase in pensions, unemployment benefits, and other social and state benefits.

Additionally expenditures in the support of the business were implemented such as a wage subsidy scheme 60/40 (the largest measure with the amount of BGN 1 billion; the scheme allows the government to subsidize 60% of the wage costs (including the employers' social security contributions) of the businesses that have registered a drop of more than 20% of the sales), direct support and several measures to support hotels, catering and tourism sector, transport industry, farming sector, tour operator sector, as well as public health sector, public administration, etc.

Most of the measures will remain active in 2021, others probably will be extended and additionally funded. The total amount of the package of measures is approximately BGN 5,6 billion, which represents 4.6% of GDP in 2019.

In relation to the COVID-19 pandemic, the following measures were implemented by BNB: increasing the banking system’s liquidity with BGN 7 billion by reducing commercial banks’ foreign exposures; cancellation of the increase of the countercyclical capital buffer, scheduled for 2020 and 2021; loan payments moratorium for a period of up to 6 months, initially and then the period was extended to 9 months, but not later than December 2021 (deadline for application – up to March 2021); setting up a swap line with ECB for EUR 2 billion to remain in place until end-2020, or as long as needed.

Anti-crisis programs for liquidity support of the companies and individuals, affected by the crisis have been announced and launched in the country as follows:

1) Bulgarian Development Bank (the government increased the capital of BDB with BGN 700 million in 2020);
    - Program for interest-free loans to support people deprived of the opportunity to work due to the COVID-19 pandemic. Guaranteed by BDB interest-free loans for individuals up to BGN 6 900, the deadline for applying extended until 30 June 2021 or until the expiry of the guarantee limits of the partnering commercial banks under the Program;
    - Portfolio guarantee program in support of the liquidity of micro, small and medium-sized enterprises (SMEs), affected by the emergency situation and the COVID-19 epidemic. Guaranteed loans by BDB with the amount up to BGN 2 million; the deadline for application - 23 June 2021.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(e) Covid-19 relief measures (continued)

2) Fund Manager of Financial instruments in Bulgaria
- Loss-capped portfolio guarantee to overcome the effects of the COVID-19 pandemic;
- Guaranteed loans of SMEs up to BGN 2.93 million, deadline for inclusion – June 2023

Eurobank Bulgaria is a partner-bank under the delineated programs and offers actively preferential loans in support of the individuals and companies in the country.

5.2.1.3 Debt securities, loans and advances to banks and derivatives

The table below presents an analysis of debt securities, derivatives and banks placements net of ECL allowance by rating agency designation, based on the credit assessments of nominated External Credit Assessment Institutions. Debt securities, banks placements and financial assets are classified in Stage 1 as per the IFRS 9 requirements.

	31 December 2020 Non-impaired					
Rating	**Trading securities**	**Debt securities at FVOCI**	**Debt securities at AC**	**Loans and advances to banks**	**Derivatives**	**Total**
AA- to AA+	-	59,674	360,096	21,523	-	**441,293**
A- to A+	-	262,250	39,891	36,122	-	**338,263**
BBB- to BBB+	39,643	519,278	-	41,034	-	**599,955**
BB- to BB+	-	146,689	41,475	-	-	**188,164**
Lower than BB-	-	-	-	319,272	1,352	**320,624**
Unrated	-	-	11,600	97,955	-	**109,555**
Total	**39,643**	**987,891**	**453,062**	**515,906**	**1,352**	**1,997,854**

	31 December 2019 Non-impaired					
Rating	**Trading securities**	**Debt securities at FVOCI**	**Debt securities at AC**	**Loans and advances to banks**	**Derivatives**	**Total**
AA- to AA+	-	27,944	-	104,914	-	**132,858**
BBB- to BBB+	-	-	-	18,019	-	**18,019**
BB- to BB+	7,903	491,699	-	65,793	-	**565,395**
Lower than BB-	-	-	39,977	1,513,354	1,494	**1,554,825**
Unrated	-	-	-	716	8	**724**
Total	**7,903**	**519,643**	**39,977**	**1,702,796**	**1,502**	**2,271,821**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.3 Debt securities, loans and advances to banks and derviatives (continued)

Concentration of risks of financial assets with credit risk

The following table breaks down the Bank's financial instruments (excluding Loans and advances to customers) at their carrying amounts, as categorized by geographical region as of 31 December. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

(a) Geographical sectors

	Bulgaria	**Greece**	**Rest of Europe**	**Other countries**	**Total**
Loans and advances to banks	-	319,272	146,331	50,303	515,906
Trading assets – debt securities	39,643	-	-	-	39,643
Debt securities at fair value through other comprehensive income	396,317	146,689	385,211	59,674	987,891
Derivative financial instruments	-	1,352	-	-	1,352
Debt securities at amortised cost	-	41,475	411,587	-	453,062
31 December 2020	**435,960**	**508,788**	**943,129**	**109,977**	**1,997,854**

	Bulgaria	**Greece**	**Rest of Europe**	**Other countries**	**Total**
Loans and advances to banks	26,116	1,513,354	117,850	45,476	1,702,796
Trading assets – debt securities	7,903	-	-	-	7,903
Debt securities at fair value through other comprehensive income	389,790	-	101,909	27,944	519,643
Derivative financial instruments	8	1,494	-	-	1,502
Debt securities at amortised cost	-	20,958	19,019	-	39,977
31 December 2019	**423,817**	**1,535,806**	**238,778**	**73,420**	**2,271,821**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.4 Offsetting of financial assets and financial liabilities

The Bank does not have offsetting assets/liabilities that fall under the scope of IAS 32, i.e. are offset in the statement of financial position when an entity has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.
The Bank has master netting arrangements with counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows the Bank to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as if they were set off in the statement of financial position. The Bank also made margin deposits as collateral for its outstanding derivative positions. The counterparty may set off the Bank's liabilities with the margin deposit in case of default.

	Gross amounts before offsetting in BS	Gross amounts set off in BS	Net amount after offsetting in BS	Financial or cash collateral received or given either recognised on BS or not, not offset on BS	Net amount of exposure
	(a)	(b)	(c) = (a) - (b)	(d)	(c) - (d)
Assets as of 31 December 2020					
Derivative assets	1,352	-	1,352	(1,352)	**-**
Liabilities as of 31 December 2020					
Derivative liabilities	(8,008)	-	(8,008)	11,972	**3,964**

	Gross amounts before offsetting in BS	Gross amounts set off in BS	Net amount after offsetting in BS	Financial or cash collateral received or given either recognised on BS or not, not offset on BS	Net amount of exposure
	(a)	(b)	(c) = (a) - (b)	(d)	(c) - (d)
Assets as of 31 December 2019					
Derivative assets	1,495	-	1,495	(1,495)	**-**
Liabilities as of 31 December 2019					
Derivative liabilities	(6,554)	-	(6,554)	5,269	**(1,285)**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.2 Market risk

Market risk is the current or prospective risk to earnings and capital arising from adverse movements in market parameters, such as interest rates, foreign exchange rates, equity prices and implied volatilities. Market risk can generally affect both trading and banking book positions, at both the asset and the liability side of the balance sheet. This risk for the Bank comprises:

- interest rate risk;
- foreign exchange risk;
- equity risk.

Interest rate risk is the current or prospective risk to earnings and capital arising from the change in the direction or volatility of interest rates/interest rate derivatives, the shape of the yield curve and the spread between different interest rates.

Foreign exchange risk is the current or prospective risk to earnings and capital arising from adverse movements in spot and forward currency exchange rates in the banking and trading books.

Equity risk is the current or prospective risk to earnings and capital arising from the change in the direction or volatility of equity prices/indices or changes in the relationship between different equity prices/indices.

The corporate governance with respect to market risk control and supervision is defined in the Bank's Market and Counterparty Risk Policy, developed in line with the Group Market and Counterparty Risk Policy. The objectives of the Bank's Market and Counterparty Risk Policy are to:

- set the framework and standards for market risk control and management throughout the Bank;
- enable compliance with the requirements of local and foreign regulators;
- be duly compliant with Group Guidelines;
- establish a framework that will eventually allow the Bank to gain competitive advantage through risk-based decision-making.

The Market and Counterparty Risk Policy is further supported by procedures which set out the detailed standards and requirements necessary to implement the Policy. The Policy and procedures apply to the control of market risks, arising on all of the Bank's assets, liabilities and off-balance sheet positions, therefore covering both Treasury and non-Treasury activities that run market risk.

The Bank's Market and Counterparty Risk Policy is approved by the Risk Committee of Eurobank Bulgaria AD and maintained by Market Risk Department. Market Risk Department reviews the policy at least annually and submits changes to the Risk Committee for approval.

The market risk control and supervision framework set by the Bank aims to:

- protect the Bank against unforeseen market losses and contribute to earnings stability through the independent identification, assessment and understanding of the market risks inherent in the business;
- help align the Bank's organizational structure and management processes with best international banking practice and set minimum standards for controlling market risks;
- develop transparent, objective and consistent market risk information as a basis for sound decision making;
- establish a structure that will allow the Bank to link business strategy and operations with the objectives for risk control and supervision

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.2 Market risk (continued)

The Bank's market risk appetite is the size of the potential unexpected loss that it is willing to absorb because of adverse changes in market variables. It is related to its ability to absorb those losses, which depends on the Bank's capital and reserves; the potential losses arising from other, non-market risks; and the regulatory capital, which is required to support the business. The Bank's market risk appetite is also expressed in terms of nominal limits set on the exposures to market risks. The market risk appetite is determined by the Bank's Risk Committee, which approves all risk limits at Bank level. These limits are also part of the global limit structure of the Group and are ratified at Group level. The Bank's market risk appetite is also expressed through characteristics such as different types of allowed markets, products, countries, counterparties and currencies.

COVID-19 Impact on Market Risk

The COVID-19 impact on market risk for the Bank was mainly related to the temporary decrease in the mark-to-market (MTM) of the Bank's securities portfolios following the unfavorable developments on the financial markets. The MTM of the Bank's FVTPL and FVTOCI bond portfolios decreased sharply in Q1'20 and then began to recover gradually during the remaining quarters and by the end of 2020 was fully recovered (for more details refer to note 19)

The Bank's trading equity portfolio value also decreased in March 2020 due to the drop in equity prices on the Bulgarian Stock Exchange. By the end of the year, the decrease in the value of the Bank's trading equity portfolio was fully recovered.

Market risk measurement techniques

The Bank ensures that all material positions that are exposed to market risks are included within the market risk measurement system. At a minimum, the market risk measurement system should measure risk arising from exposure to the following specific market risk factors, i.e. the specific market prices or rates that affect the value of positions:

- foreign exchange rates;
- interest rates, and
- equity prices.

Currently market risk measurement is done using notional exposure data and notional level limits, supported by regular stress testing. The Bank is not using VaR-based limits. Daily VaR is calculated only for the listed equities portfolio. Upon senior management decision in the future the Bank may introduce additional value-at-risk analysis.

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The major part of the Bank's FX position is against EUR, while the BGN/EUR currency rate remains pegged at 1.95583 as part of the Currency Board arrangements. The Management sets limits on the open positions in individual currencies as well as on the aggregate overnight open positions and these limits are monitored on a daily basis.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise. The Management reviews the interest rate gaps, the interest rate mismatch and the necessary repricing that may be undertaken on a monthly basis.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.2 Market risk (continued)

Sensitivity of assets and liabilities

The Bank is exposed to the fluctuations of the different types of market risk. The sensitivity analysis below illustrates the potential impact on the income statement and equity from reasonable possible shifts, based on the market dynamics and economic environment that have been observed during the reporting period.

	Total Effect on Economic Vaue	Direct P&L Effect	Direct Equity Effect	Banking Book Effect
Interest Rate				
+100 bps parallel shift for all currencies	**(38,216)**	(1,868)	(23,660)	(12,688)
Equities / Equity Indices / Mutual Funds				
-10% equity price drop across the board	**(103)**	(103)	-	-
Foreign exchange				
-10% depreciation of local currency	**530**	530	-	-

	31 December 2019			
	Total Effect on Economic Vaue	Direct P&L Effect	Direct Equity Effect	Banking Book Effect
Interest Rate				
+100 bps parallel shift for all currencies	**(14,080)**	(444)	(12,937)	(699)
Equities / Equity Indices / Mutual Funds				
-10% equity price drop across the board	**(90)**	(90)	-	-
Foreign exchange				
-10% depreciation of local currency	**810**	810	-	-

The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

		Market risk measure	
As at 31 December 2020	**Carrying amount**	**Trading portfolios**	**Non-trading portfolios**
Assets subject to Market risk			
Cash and balances with Central Bank	1,935,834	-	1,935,834
Trading assets	40,672	40,672	-
Derivative financial instruments	1,352	1,352	-
Loans and advances to banks	515,906	-	515,906
Loans and advances to customers	7,798,875	-	7,798,875
Investment securities	1,463,077	-	1,463,077
Other financial assets	19,404	-	19,404
Total assets subject to Market risk	**11,775,120**	**42,024**	**11,733,096**
Liabilities subject to Market risk			
Derivative financial instruments	9,442	4,258	5,184
Deposits from banks	7,739	-	7,739
Due to customers	10,234,485	-	10,234,485
Other borowed funds	29,370	-	29,370
Other financial liabilities	134,367	-	134,367
Total liabilities subject to Market risk	**10,415,403**	**4,258**	**10,411,145**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.2 Market risk (continued)

Sensitivity of assets and liabilities (continued)

		Market risk measure	
As at 31 December 2019	**Carrying amount**	**Trading portfolios**	**Non-trading portfolios**
Assets subject to Market risk			
Cash and balances with Central Bank	1,454,306	-	1,454,306
Trading assets	8,805	8,805	-
Derivative financial instruments	1,502	1,502	-
Loans and advances to banks	1,702,796	-	1,702,796
Loans and advances to customers	7,111,741	-	7,111,741
Investment securities	579,275	-	579,275
Other financial assets	17,758	-	17,758
Total assets subject to Market risk	**10,876,183**	**10,307**	**10,865,876**
Liabilities subject to Market risk			
Derivative financial instruments	8,353	3,981	4,372
Deposits from banks	15,036	-	15,036
Due to customers	9,438,085	-	9,438,085
Other borowed funds	38,924	-	38,924
Other financial liabilities	74,880	-	74,880
Total liabilities subject to Market risk	**9,575,278**	**3,981**	**9,571,297**

Sensitivity to changes to the three major market risk factors – foreign exchange rates, interest rates and equity prices, has been calculated and presented above. The calculation parameters used have been determined based on the market environment and the dynamics observed during the last couple of years and represent reasonable possible shifts in the market variables.

1. Foreign exchange risk sensitivity has been calculated directly on the total net open position (excluding Euro) of the Bank as a 10% depreciation of the local currency against all foreign currencies (except Euro), which include mainly USD, CHF and GBP. The BGN/EUR exchange rate is fixed at 1.95583 as part of the Currency Board Arrangement.

2. Interest rate risk sensitivity has been estimated by applying a parallel yield curve shift to all of the Bank's relevant on- and off-balance sheet positions and calculating the changes in their present value. The results have been allocated to three columns depending on the accounting treatment of each position:

- Direct P&L effect - for items with fair value changes recorded through profit and loss (trading portfolio securities and derivatives);
- Direct equity effect - for items with fair value changes included in OCI (FVOCI securities);
- Banking book effect - for items with no accounting revaluation (assets and liabilities not measured at fair value), the effect is through changes in the economic value of capital.

The sum of the three columns gives the total effect on the economic value of the Bank.

3. Equity price risk sensitivity has been calculated by applying a 10% drop in equity prices across the board for the traded equities portfolio.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.2 Market risk (continued)

Foreign exchange risk concentration

The following table presents the Bank's exposure to foreign exchange risk as at 31 December 2020 and 2019:

	As at 31 December 2020					
Assets	**BGN**	**EUR**	**USD**	**CHF**	**OTHER**	**Total**
Cash and balances with the Central Bank	973,130	951,105	6,223	1,746	3,630	**1,935,834**
Loans and advances to banks	-	410,406	67,960	9,049	28,491	**515,906**
Trading assets	40,672	-	-	-	-	**40,672**
Derivative financial instruments	209	1,075	65	-	3	**1,352**
Loans and advances to customers	5,586,400	2,104,230	77,604	30,641	-	**7,798,875**
Investment securities	9,603	1,262,970	190,504	-	-	**1,463,077**
Other financial assets	14,215	3,815	1,366	2	6	**19,404**
Total financial assets	**6,624,229**	**4,733,601**	**343,722**	**41,438**	**32,130**	**11,775,120**
Liabilities						
Deposits from banks	7,253	130	-	-	356	**7,739**
Derivative financial instruments	-	9,328	-	114	-	**9,442**
Due to customers	6,340,758	3,228,051	594,490	15,920	55,266	**10,234,485**
Other borrowed funds	25,474	3,895	-	-	-	**29,370**
Other financial liabilities	65,764	61,575	586	6,127	315	**134,367**
Total financial liabilities	**6,439,249**	**3,302,979**	**595,076**	**22,161**	**55,937**	**10,415,403**
Off balance sheet Credit related commitments	**1,518,903**	**283,586**	**20,531**	**-**	**-**	**1,823,020**
	As at 31 December 2019					
Assets	**BGN**	**EUR**	**USD**	**CHF**	**OTHER**	**Total**
Cash and balances with the Central Bank	1,037,421	405,175	6,445	2,246	3,018	**1,454,305**
Loans and advances to banks	196	1,591,113	76,452	10,726	24,308	**1,702,795**
Trading assets	8,805	-	-	-	-	**8,805**
Derivative financial instruments	259	1,202	-	-	41	**1,502**
Loans and advances to customers	5,032,656	1,962,461	63,827	52,797	-	**7,111,741**
Investment securities	38,161	503,224	37,890	-	-	**579,275**
Other financial assets	8,599	6,243	2,906	2	8	**17,758**
Total financial assets	**6,126,097**	**4,469,418**	**187,520**	**65,771**	**27,375**	**10,876,181**
Liabilities						
Deposits from banks	5,886	7,824	957	-	369	**15,036**
Derivative financial instruments	-	8,282	-	71	-	**8,353**
Due to customers	5,828,024	2,992,404	561,862	11,658	44,138	**9,438,086**
Other borrowed funds	31,139	7,785	-	-	-	**38,924**
Other financial liabilities	71,567	64,830	4,706	307	35	**141,445**
Total financial liabilities	**5,936,616**	**3,081,125**	**567,525**	**12,036**	**44,542**	**9,641,844**
Off balance sheet Credit related commitments	**1,332,029**	**295,092**	**18,323**	**-**	**410**	**1,645,854**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.3 Liquidity risk

Basel Committee defines liquidity as "the ability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses".

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank has a limited appetite for liquidity risk and accepts the potentially increased costs of maintaining sufficient liquidity buffers to ensure a sound liquidity position.

Liquidity risk management process

The Bank maintains appropriate liquidity policies which have to ensure prudent liquidity management practices are in place.

Within its liquidity risk management framework, the Bank observes various liquidity ratios and indicators. The main aspects to be considered in liquidity control are liquidity ratios, the availability of sufficient and quality liquid assets and buffers, maturity mismatch profile, diversity and stability of the deposit base, loans to deposits ratio, stress test results and other.

Market Risk Department is responsible to regularly produce and distribute the internally adopted liquidity gap reports with embedded liquidity ratios. It is the unit which exercises an independent liquidity risk control function, escalating any excesses to the respective management bodies.

In addition to the internally defined liquidity ratios and reports, further to Regulation (EU) No 575/2013, Regulation (EU) No 2015/61 and Regulation No 2016/313 the Bank also prepares the reports under the Liquidity Coverage Ratio (LCR), Additional Liquidity Monitoring Metrics (ALMM) on a monthly basis and the Net Stable Funding Ratio (NSFR) on a quarterly basis. In 2018, the Liquidity Report under BNB Ordinance 11 was replaced by a new Maturity Ladder Report for monitoring of the maturity structure of inflows and outflows. The Maturity Ladder report is prepared under the EBA methodology as per Annex 23 of Commission Implementing Regulation (EU) 2017/2114.

The Bank also makes assessment of its liquidity position under stress scenarios, developed to analyse the adequacy of the Bank's liquidity to withstand crisis situations (e.g. significant deposit outflows, tightening of credit lines, etc.).

The Management Board (MB) of the Bank assigns the Assets and Liabilities Committee (ALCO) as the primary responsible body to advise the MB for the strategic management of assets and liabilities with aim to manage the interest rate and liquidity risks of the Bank.

ALCO is composed of the senior management of the Bank, meets at least once a month and duly reports any significant issues to the MB of the Bank.

Within its authority is to take all the necessary decisions regarding the interest rate policy, the liquidity and assets and liabilities management and to set the target parameters of potential external funding.

Regarding Assets and Liabilities management, ALCO shall regularly review the following:

- Structure, current state and trends of the assets and liabilities of the Bank;
- Interest income margin generated on assets and cost of funding base (deposit base and external funding);
- Interest rates offered by main competitors and market shares;
- Capital Adequacy.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.3 Liquidity risk (continued)

Liquidity risk management process (continued)

Regarding Liquidity management, ALCO shall regularly review the following:

- Liquidity Ratios and liquidity buffers as defined by BNB , ECB and the EU regulations;
- Internal Liquidity ratios;
- Liquid buffers;
- Sources and uses of Liquidity and Liquidity Projections;
- Liquidity Stress tests, reflecting the changes on the asset-liability maturity tables in different stress scenarios and the respective impact on liquidity buffers.

On a strategic level ALCO manages the Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations.

The operational management of the Bank's liquidity and the execution of ALCO decisions regarding liquidity are assigned to the Head of Capital Markets Division. If necessary, ALCO can be directly engaged in the liquidity management via activating all resources of the Bank to meet all payment obligations.

Cash flows

The table below presents the cash flows receivables and payable by the Bank under financial assets/ liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows for the year 2020 and 2019. Liabilities without contractual maturities (sight and saving deposits) are presented in "less than 1 month" time bucket.

As at 31 December 2020	**Carrying**	**Gross nominal**	**Less than**	**1-3**	**3-12**	**1-5**	**More than**
Financial Assets	**amount**	**inflow/ (outflow)**	**1 month**	**months**	**months**	**years**	**5 years**
Non-derivative assets	***11,773,768***	***12,853,185***	***4,417,662***	***285,122***	***1,024,946***	***4,331,393***	***2,794,062***
Cash and balances with Central Bank	1,935,834	1,935,834	1,935,834	-	-	-	-
Loans and advances to banks	515,906	516,576	418,296	-	98,280	-	-
Loans and advances to customers	7,798,875	8,876,235	1,902,109	223,039	857,798	3,205,148	2,688,141
Financial assets held for trading	40,672	40,681	1,044	1,023	39	37,129	1,446
Investment securities	1,463,077	1,464,455	140,975	61,060	68,829	1,089,116	104,475
Other financial assets	19,404	19,404	19,404	-	-	-	-
Derivative financial instruments	***1,352***	***1,315,031***	***1,065,154***	***242,442***	***693***	***4,554***	***2,188***
Inflow from net settled		8,149	-	714	693	4,554	2,188
Inflow from gross settled		1,306,882	1,065,154	241,728	-	-	-
Total assets (contractual maturity)	**11,775,120**	**14,168,216**	**5,482,816**	**527,564**	**1,025,639**	**4,335,947**	**2,796,250**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.3 Liquidity risk (continued)

Liquidity risk management process (continued)

As at 31 December 2020 **Financial liabilities**	**Carrying amount**	**Gross nominal inflow/ (outflow)**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Non-derivative liabilities	***10,472,772***	***(10,476,835)***	***(7,875,834)***	***(904,217)***	***(1,334,193)***	***(346,652)***	***(15,939)***
Due to other banks	7,739	(7,739)	(7,739)	-	-	-	-
Due to customers	10,234,485	(10,236,580)	(7,732,469)	(901,624)	(1,313,760)	(288,727)	-
Other borrowed funds	29,370	(30,257)	-	(89)	(9,837)	(20,331)	-
Lease liabilities	66,811	(67,892)	(1,259)	(2,504)	(10,596)	(37,594)	(15,939)
Other financial liabilities	134,367	(134,367)	(134,367)	-	-	-	-
Derivative financial instruments	***9,442***	***(1,317,938)***	***(1,062,707)***	***(243,019)***	***(1,654)***	***(7,542)***	***(3,016)***
(Outflow) from net settled		(13,385)	-	(1,173)	(1,654)	(7,542)	(3,016)
(Outflow) from gross settled		(1,304,553)	(1,062,707)	(241,846)	-	-	-
Total liabilities (contractual maturity)	**10,482,214**	**(11,794,773)**	**(8,938,541)**	**(1,147,236)**	**(1,335,847)**	**(354,194)**	**(18,955)**

As at 31 December 2020 **Off Balance sheet items**	**Gross nominal inflow/ (outflow)**	**Less than 1 month**	**1-3 Months**	**3-12 months**	**1-5 Years**	**More than 5 years**
Credit commitments	(1,584,961)	(196,108)	(187,767)	(669,287)	(512,730)	(19,069)
Guarantees and other committments	(238,059)	(22,839)	(32,344)	(112,301)	(55,277)	(15,298)
Total amount	**(1,823,020)**	**(218,947)**	**(220,111)**	**(781,588)**	**(568,007)**	**(34,367)**

As at 31 December 2019 **Financial Assets**	**Carrying amount**	**Gross nominal inflow/ (outflow)**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Non-derivative assets	***10,874,681***	***11,691,412***	***4,728,441***	***234,200***	***793,187***	***3,360,774***	***2,574,810***
Cash and balances with Central Bank	1,454,306	1,454,306	1,454,306	-	-	-	-
Loans and advances to banks	1,702,796	1,703,016	1,703,016	-	-	-	-
Loans and advances to customers	7,111,741	7,921,015	1,536,955	209,562	770,818	2,954,862	2,448,818
Financial assets held for trading	8,805	8,819	903	23	32	1,305	6,556
Investment securities	579,275	586,498	15,503	24,615	22,337	404,607	119,436
Other financial assets	17,758	17,758	17,758	-	-	-	-
Derivative financial instruments	***1,502***	***1,467,085***	***1,075,606***	***382,031***	***773***	***5,661***	***3,014***
Inflow from net settled		9,975	-	527	773	5,661	3,014
Inflow from gross settled		1,457,110	1,075,606	381,504	-	-	-
Total assets (contractual maturity)	**10,876,183**	**13,158,497**	**5,804,047**	**616,231**	**793,960**	**3,366,435**	**2,577,824**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.3 Liquidity risk (continued)

Liquidity risk management process (continued)

As at 31 December 2019	**Carrying**	**Gross nominal**	**Less than**	**1-3**	**3-12**	**1-5**	**More than**
Financial liabilities	**amount**	**inflow/ (outflow)**	**1 month**	**months**	**months**	**years**	**5 years**
Non-derivative liabilities	***9,633,490***	***(9,639,358)***	***(7,096,092)***	***(788,104)***	***(1,409,221)***	***(327,445)***	***(18,496)***
Due to other banks	15,036	(15,036)	(15,036)	-	-	-	-
Due to customers	9,438,085	(9,441,927)	(7,004,908)	(785,482)	(1,388,689)	(262,848)	-
Other borrowed funds	38,924	(40,376)	-	(119)	(9,963)	(27,446)	(2,848)
Lease liabilities	66,565	(67,139)	(1,268)	(2,503)	(10,569)	(37,151)	(15,648)
Other financial liabilities	74,880	(74,880)	(74,880)	-	-	-	-
Derivative financial instruments	***8,353***	***(1,472,255)***	***(1,074,789)***	***(382,318)***	***(1,751)***	***(9,490)***	***(3,907)***
(Outflow) from net settled		(16,321)	-	(1,173)	(1,751)	(9,490)	(3,907)
(Outflow) from gross settled		(1,455,934)	(1,074,789)	(381,145)	-	-	-
Total liabilities (contractual maturity)	**9,641,843**	**(11,111,613)**	**(8,170,881)**	**(1,170,422)**	**(1,410,972)**	**(336,935)**	**(22,403)**

As at 31 December 2019	**Gross nominal**	**Less than**	**1-3**	**3-12**	**1-5**	**More than**
Off Balance sheet items	**inflow/ (outflow)**	**1 month**	**months**	**months**	**years**	**5 years**
Credit commitments	(1,349,801)	-	(45,891)	(847,525)	(436,974)	(19,411)
Guarantees and other committments	(296,053)	(21,703)	(54,955)	(130,478)	(75,266)	(13,651)
Total amount	**(1,645,854)**	**(21,703)**	**(100,846)**	**(978,003)**	**(512,240)**	**(33,062)**

Based on the experience the Bank contractual maturities are not the expected maturities. Saving and sight deposits are expected to remain stable and no significant fluctuations from the normal course of business are expected.

Off-balance sheet items

(a) *Loan commitments*

The amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are presented on-demand - to the earliest period in which the Bank can be required to pay.

(b) *Financial guarantees and other financial facilities.*

Financial guarantees are presented on-demand, based on the earliest date on which the guaranatee can be called.

Based on the experience of the bank Cash flows from financial guarantees and loan commitments are presented by maturity.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.3. Fair values 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 under current market conditions (i.e. an exit price). When a quoted price for an identical asset or liability is not observable, fair value is measured using valuation techniques that are appropriate in the circumstances, and maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Observable inputs are developed using market data, such as publicly available information about actual events or transactions, and reflect assumptions that market participants would use when pricing financial instruments, such as quoted prices in active markets for similar instruments, interest rates and yield curves, implied volatilities and credit spreads.

Fair values of financial assets and liabilities not measured at fair value

The following table presents the carrying amounts and fair values of financial assets and liabilities which are not carried at fair value on the balance sheet, analysed by the level in the fair value hierarchy into which each fair value measurement is included:

At 31 December 2020

	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount
Financial assets					
Loans and advances to customers					
- Corporate	-	-	3,442,926	**3,442,926**	**3,756,259**
- SBB	-	-	639,254	**639,254**	**654,749**
- Consumer	-	-	1,267,341	**1,267,341**	**1,178,896**
- Mortgage	-	-	2,228,600	**2,228,600**	**2,208,971**
Total	**-**	**-**	**7,578,121**	**7,578,121**	**7,798,875**
Financial liabilities					
Other borrowed funds		29,370	-	**29,370**	**29,370**

At 31 December 2019

	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount
Financial assets					
Loans and advances to customers					
- Corporate	-	-	3,191,194	**3,191,194**	**3,463,619**
- SBB	-	-	650,087	**650,087**	**666,038**
- Consumer	-	-	1,071,427	**1,071,427**	**991,794**
- Mortgage	-	-	1,986,443	**1,986,443**	**1,990,290**
Total	**-**	**-**	**6,899,151**	**6,899,151**	**7,111,741**
Financial liabilities					
Other borrowed funds		38,924	-	**38,924**	**38,924**

The assumptions and methodologies underlying the calculation of fair values of financial instruments not carried at fair value on the balance sheet date are in line with those used to calculate the fair values for financial instruments carried at fair value and are as follows:

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.3 Fair values of financial assets and liabilities (continued)

a) Loans and advances to customers

For loans and advances to customers quoted market prices are not available as there are no active markets where these instruments are traded. The fair values are estimated by discounting future expected cash flows over the time period they are expected to be recovered, using constructed risk-adjusted rates.
Loans are grouped into homogenous pools of assets based on shared credit risk characteristics, such as product type, borrower type, vintages and credit history. In estimating future cash flows, the Bank takes into account information for the contractual terms, remaining maturity and credit risk parameters of the exposures.

For other financial instruments which are short term (cash and balances with central banks, loans and advances to banks, due to central banks and other banks) or re-priced at frequent intervals (due to customers) the carrying amounts represent reasonable approximations of fair values.

b) Debt issued and other borrowed funds

For borrowed funds, which are either short term or re-priced at frequent intervals, the carrying amounts represent reasonable approximations of fair values.
The fair values of fixed rate borrowed funds are determined by discounting the expected cash flows at a risk-adjusted rate, where the Bank's own credit risk is determined using inputs indirectly observable, i.e. quoted prices of similar securities issued by the Bank or other issuers.

Financial instruments measured at fair value

Trading assets, derivatives and other transactions undertaken for trading purposes, as well as FVOCI securities and assets and liabilities designated at fair-value-through-profit-or-loss are measured at fair value by reference to quoted market prices when available. If quoted prices are not available, the fair values are estimated using appropriate valuation techniques.

These financial instruments carried at fair value are categorised into the three levels of the fair value hierarchy as at 31 December 2020 based on whether the inputs to the fair values are observable or unobservable, as follows:

Level 1 – Financial instruments measured based on quoted prices in active markets for identical financial instruments that the Bank can access at the measurement date. A market is considered active when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and represent actually and regularly occurring transactions. These include actively quoted debt instruments, equity and derivative instruments traded on exchanges, as well as mutual funds and unit-linked products that have regularly and frequently published quotes.

Level 2 – Financial instruments measured using valuation techniques with the following inputs: i) quoted prices for similar financial instruments in active markets, ii) quoted prices for identical or similar financial instruments in markets that are not active, iii) inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognised market data providers and iv) may also include other unobservable inputs which are insignificant to the entire fair value measurement. Level 2 financial instruments mainly include over-the-counter (OTC) derivatives and less-liquid debt instruments.

Level 3 – Financial instruments measured using valuation techniques with significant unobservable inputs. When developing unobservable inputs, best information available is used, including own data, while at the same time market participants' assumptions are reflected (e.g. assumptions about risk). Level 3 financial instruments include unquoted equity instruments and illiquid debt securities.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.3 Fair values of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

The fair value hierarchy categorisation of the Bank's financial assets and liabilities carried at fair value is presented in the following table:

	31 December 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Trading assets				
-Debt securities	39,643	-	-	**39,643**
-Equity securities	1,029	-	-	**1,029**
Derivative financial instruments	-	1,352	-	**1,352**
Investment securities				
- Investment securities at FVOCI	978,123	-	-	**978,123**
- Investment securities at FVTPL	-	6,519	15,605	**22,124**
Total financial assets	**1,018,795**	**7,871**	**15,605**	**1 042,271**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	9,442	-	**9,442**
Total financial liabilities	**-**	**9,442**	**-**	**9,442**

	31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Trading assets				
-Debt securities	7,903	-	-	**7,903**
-Equity securities	902	-	-	**902**
Derivative financial instruments	-	1,502	-	**1,502**
Investment securities				
- Investment securities at FVOCI	512,757	-	-	**512,757**
- Investment securities at FVTPL	100	-	19,556	**19,656**
Total financial assets	**521,662**	**1,502**	**19,556**	**542,720**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	8,353	-	**8,353**
Total financial liabilities	**-**	**8,353**	**-**	**8,353**

Reconciliation of Level 3 fair value measurement	**2020**	**2019**
Balance at 1 January	**19,556**	**11,950**
Transfers into Level 3	99	3,566
Total (loss)/ gain for the period included in profit or loss	(4,050)	4,040
Balance at 31 December	**15,605**	**19,556**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

5. Financial risk management and fair value (continued)

5.3 Fair values of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

The realized gain/ loss for Level 3 instruments is recognized in “Gain less lossess from investment securities” line.

Bank's valuation processes

The Bank uses widely recognized valuation models for determining the fair value of common financial instruments, such as interest and currency swaps and forwards, that use only observable market data and require little management estimation and judgment. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded and simple over-the-counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values.

Where valuation techniques are used to determine the fair values of financial instruments, they are validated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments, and periodically reviewed by qualified personnel independent of the personnel that created them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Fair values estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that market participants would take them into account in pricing the instrument. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty, where appropriate.

The Bank follows fair valuation processes and procedures, which are established at Group level by Global Market Counterparty Risk Sector. Some of the specific valuation controls include: verification of observable pricing, re-performance of model valuations, a review and approval process for new models and/or changes to models, calibration and back-testing against observable market transactions, where available, analysis of significant valuation movements, etc. Where third parties' valuations are used for fair value measurement, these are reviewed in order to ensure compliance with the requirements of IFRS 13.

Valuation techniques

OTC derivative financial instruments are fair valued by discounting expected cash flows using market interest rates at the measurement date. Counterparty credit risk adjustments and own credit risk adjustments are applied to OTC derivatives, where appropriate. Bilateral credit risk adjustments consider the expected cash flows between the Bank and its counterparties under the relevant terms of the derivative instruments and the effect of the credit risk on the valuation of these cash flows. As appropriate in circumstances, the Bank considers also the effect of any credit risk mitigating arrangements, including collateral agreements and master netting agreements on the calculation of credit risk valuation adjustments (CVAs).

The Bank determines fair values for debt securities held using quoted market prices in active markets for securities with similar credit risk, maturity and yield or by using discounted cash flows method.

The fair values of unquoted equity instruments are estimated mainly (i) using third parties' valuation reports based on investees' net assets, where management does not perform any further significant adjustments, (ii) net assets' valuations, adjusted where considered necessary and (iii) dividend discount models, where deemed appropriate.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

6 Net interest income

Net interest income	2020	2019
Loans and advances to customers	349,129	300,242
Loans and advances to banks	6,236	25,616
Investment securities	9,501	8,230
Interest income calculated using the effective interest method	**364,866**	**334,088**
Derivative instruments	8,483	13,176
Trading securities	376	111
Interest income on lease receivables	799	-
Other Interest income	**9,658**	**13,287**
Total interest income	**374,524**	**347,375**

The unwinding of the discount of the ECL allowance (Note 18) amounting to BGN 12,613 thousand (2019: BGN 18,560 thousand) is included in interest income on impaired loans and advances to customers. Interest income includes BGN 21,422 thousand (2019: BGN 26,416 thousand) interest income, recognised on impaired loans to customers, out of which BGN 3,201 thousand (2019: BGN 11,858 thousand) remain due by the customer as of year-end.

Interest income includes BGN 19,095 thousand (2019: BGN 15,632 thousand) income from insurers related to insurance premiums paid by borrowers as an integral part of loan deal origination.

Interest expense and similar charges	2020	2019
Deposits from customers	6,478	6,569
Hedging instruments	2,620	2,612
Deposits from banks	3,055	1,291
Other borrowed funds	443	367
Operating lease	63	49
Derivative instruments	-	9
Total interest expense and similar charges	**12,659**	**10,897**
Total Net interest income	**361,865**	**336,478**

7 Net fee and commission income

Fees and commission income	2020	2019
Money transfers	30,112	34,061
Account maintenance	34,251	27,717
Foreign exchange operations	16,051	12,682
Loans' fees and commissions	11,481	10,262
Receipts from sales of services	13,821	12,957
Cash operations	10,685	8,888
Management, brokerage and securities trading	2,325	1,481
Other fees	1,057	1,284
Total fees and commission income from contracts with customers	**119,783**	**109,332**
Financial guarantee contracts and loan commitmnets	3,134	2,615
Total fees and commission income	**122,917**	**111,947**
Fee and commission expense	**2020**	**2019**
Loans related fees	2,173	2,334
Transactions processing	14,199	13,252
Cash transactions and correspondent accounts	959	562
Other fees	1,572	1,269
Management, brokerage and securities trading	615	518
Total fees and commission expense	**19,518**	**17,935**
Total Net fees and commission income	**103,399**	**94,012**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

8 Other operating income, net	**2020**	**2019**
Net gain arising from derecognition of financial assets	2,550	1,940
Net (loss) from Modification of non-forborne loans	(1,495)	(1,189)
Net gain from non-current fixed assets	107	456
Rental income	215	608
Other income (Operating Leases IFRS 16)	44	-
(Loss) from sale of subsidiary	-	(814)
Investment and own property impairment	(1,955)	-
Income from renegotiated rental agreements	1,852	-
Total	**1,318**	**1,001**

The recognized income from negotiated rental agreements (BGN 1,852 thousand) is a result of the actions taken by the Bank in view of the Covid-19 outbreak consequences.

9 Net trading income	**2020**	**2019**
Translation gains less losses	-	(212)
Net results from derivative instruments	436	501
of which:		
(Losses) on derivative fin. Instruments – Hedging (Note 25)	*18*	*(30)*
Gains on derivative fin. instruments - Non-Hedging	*418*	*531*
Net trading income	**436**	**289**

10 Other operating expenses	**2020**	**2019**
Staff costs (Note 11)	103,332	100,634
Depreciation of PPE and ROA (Note 21)	23,393	19,738
Repairs and maintenance	12,219	9,863
External services	8,729	7,474
Amortisation of intangible assets (Note 22)	8,607	8,142
Software costs	9,393	7,020
Advertising and marketing	5,848	6,690
Security	7,049	5,970
Other operating costs	4,612	6,972
Operating lease rentals	1,667	1,656
Materials and utilities	1,809	1,627
Travel and accommodation	279	1 011
Insurance	820	682
Communication	726	613
Transaction related costs	-	20,541
Total	**188,483**	**198,633**

Transaction related costs recognized in 2019 include consultancy costs, legal, registration and other related to the acquisition of Piraeus Bank costs.

The amounts accrued in 2020 for the services provided by the registered auditors for statutory joint independent financial audit are as follows: for KPMG Audit OOD - BGN 410 thousand excluding VAT, for Baker Tilly Klitou and Partners OOD - BGN 37 thousand excluding VAT. In 2020 the Bank was charged with amounts for other non-statutory audit services provided by KPMG Audit OOD at a total amount of BGN 59 thousand excluding VAT and by Baker Tilly Klitou – BGN 2 thousand excluding VAT.

The amounts accrued in 2019 for the services provided by the registered auditors for statutory joint independent financial audit are as follows: for KPMG Audit OOD - BGN 446 thousand excluding VAT, for Baker Tilly Klitou and Partners OOD - BGN 117 thousand excluding VAT. In 2019 the Bank was charged with amounts for other non-statutory audit services provided by KPMG Audit OOD at a total amount of BGN 23 thousand excluding VAT.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

11	**Staff costs**	**2020**	**2019**
	Wages and salaries	83,916	72,631
	Social security costs	6,094	5,155
	Pension costs – defined contribution plans	10,468	7,208
	Pension costs / (income) – defined benefit plans (Note 30)	887	(151)
	Other	1,967	15,791
	Total staff cost	**103,332**	**100,634**

Other staff cost for 2019 includes the expenses related to the restructuring process in view of the acquisition of Piraeus Bank Bulgaria.

12	**Impairment charge for credit losses**	**2020**	**2019**
	Loans and advances to customers (Note 18)	(82,719)	(66,370)
	Credit commitments (charge) / release of impairment	(9)	73
	Other impairment (losses) / release	(675)	230
	Total	**(83,403)**	**(66,067)**

Other impairment release/losses include the ECL charge during 2020 and 2019 as per IFRS 9 regarding financial assets other than loans and advances to customers (securities, placements, etc.)

13	**Income tax expense**	**2020**	**2019**
	Deferred tax (benefit) / expense (Note 28)	4,707	(499)
	Current income tax	12,436	17,879
	Total	**17,143**	**17,380**

Tax is payable at an actual rate of 10% (2019: 10%) on adjusted profits under Corporate Tax Act.

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

	2020	**2020**	**2019**	**2019**
	Tax rate	**Amount**	**Tax rate**	**Amount**
Profit before income tax		**169,819**		**231,079**
Tax calculated at the basic tax rate	10.0%	16,981	10.0%	23,108
Tax effect of:				
Non tax deductible expenses	1.6%	2,763	0.3%	689
Non taxable income	(1.6%)	(2,731)	(2.9%)	(6,627)
Loss / (gain) recognized in OCI	0.1%	130	0.1%	210
Income tax expense	**10.1%**	**17,143**	**7.5%**	**17,380**

Additional information about deferred tax is presented in Note 28.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional taxes and penalties. The management of the Bank is not aware of any circumstances, which can potentially raise material tax obligations.
The last full-scope tax audit of the Bank has been carried out in 2014, covering the periods 2008 – 31.03.2013 with respect to VAT and 2008 – 2012 with respect to CITA.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

14 Income tax effects relating to comprehensive income

	Year ended 31 December					
	2020			2019		
	Before tax amount	**Tax (expense)/ benefit**	**Net of tax amount**	**Before tax amount**	**Tax (expense)/ benefit**	**Net of tax amount**
Investment Securities at FVOCI	(1,251)	125	(1,126)	(2,191)	219	(1,972)
Change in FV of property, plant and equipment	1,013	(101)	912	1,003	(100)	903
Remeasurements of retirement benefit obligation	503	(50)	453	(193)	19	(174)
Total	**265**	**(26)**	**239**	**(1,381)**	**138**	**(1,243)**

15 Cash and balances with the Central Bank

	2020	**2019**
Cash in hand	142,215	150,938
Balances with Central bank	1,793,619	1,303,368
Total	**1,935,834**	**1,454,306**
of which:		
Mandatory reserve with Central Bank in accordance with BNB Regulation 21	924,678	834,167

Mandatory reserves with Central bank represent the minimum level of deposits which the Bank is required to maintain with BNB. As at the end of 2020 and 2019 the Bank has fulfilled the requirement for a minimum 100% coverage of mandatory reserves with balances with Central bank on a monthly basis. Balances with Central bank can be freely used daily provided the average monthly minimum deposits are maintained.

16 Loans and advances to banks

	2020	**2019**
Deposits in other banks	516,068	1,702,886
Less impairment loss allowance	(162)	(90)
Total	**515,906**	**1,702,796**

Included in the amount of loans and advances to banks is accrued interest of BGN 30 thousand (2019: BGN 65 thousand). The impairment provisions under IFRS9 as of end of 2020 amounted to BGN 162 thousand (2019: BGN 90 thousand).

Approximately 81 % (2019: 98 %) of the amounts due from other banks represent funds placed in banks domiciled in OECD (Organisation for Economic Co-operation and Development) countries.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

17 Trading assets

	2020	2019
Bulgarian government bonds	39,643	7,903
Shares	1,029	902
Total	**40,672**	**8,805**

Equity securities:		
- Listed	1,029	902
Debt securities:		
- Listed	39,643	7,903

Included in the amount of the bonds is accrued interest in the amount of BGN 26 thousand (2019: BGN 17 thousand).

Gains less (losses) from trading securities	2020	2019
Debt securities	(213)	333
Equity securities	127	(74)
Total	**(86)**	**259**

18 Loans and advances to customers

	2020	2019
Consumer lending (including credit cards)	1,235,628	1,033,018
Small Business lending	717,287	760,360
Mortgages	2,276,319	2,094,864
Corporate lending	3,834,609	3,534,285
Gross loans and advances	**8,063,843**	**7,422,527**
Less allowance for impairment losses on loans and advances	(264,968)	(310,786)
Net outstanding balance of loans and advances to customers	**7,798,875**	**7,111,741**

Included in the amount of loans and advances to customers is accrued interest of BGN 40,873 thousand (2019: BGN 31,294 thousand). In 2020, following the merger with ERB Leasing Bulgaria AD, the Bank acquired a portfolio amounting to BGN 23,949 thousand (2019: BGN 6,350 thousand purchased loans from BRS).

	2020	2019
The ten largest exposures to customers	822,656	716,409
Percentage of gross loans	10.20%	9.65%

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

18 Loans and advances to customers (continued)

The following table presents the impairment allowance movement by product line:

	31 December 2020																
	Wholesale				Mortgage				Consumer				Small bisiness				
	12-month ECL	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired -Stage 3**	**POCI**	**12-month ECL**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired -Stage 3**	**POCI**	**12-month ECL**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired -Stage 3**	**POCI**	**12-month ECL**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**POCI**	**Total**
Impairment allowance as at 1 January	**7,414**	**7,740**	**48,435**	**7,077**	**2,813**	**2,352**	**99,253**	**156**	**10,541**	**5,416**	**25,267**	**-**	**8,146**	**4,724**	**81,447**	**5**	**310,786**
New loans and advances originated or purchased	9,170	-	-	-	1,139	-	-	-	9,827	-	-	-	1,820	-	-	-	**21,956**
Transfers between stages:																	
-to 12-month ECL	*(652)*	*632*	*20*	-	*(880)*	*547*	*333*	-	*(871)*	*790*	*81*	-	*(1,135)*	*1,089*	*46*	-	-
-to lifetime ECL	*1,043*	*(1,043)*	-	-	*135*	*(135)*	-	-	*1,034*	*(1,034)*	-	-	*973*	*(973)*	-	-	-
-to lifetime ECL credit-impaired loans	*291*	*2,806*	*(3,096)*	-	*9*	*424*	*(433)*	-	*120*	*1,782*	*(1,902)*	-	*93*	*933*	*(1,027)*	-	-
Impact of ECL net remeasurement	(3,587)	(1,579)	18,112	-	665	564	7,139	-	(8,581)	3,338	18,609	-	(2,496)	2,187	26,392	-	**60,763**
Recoveries from written - off loans	-	-	25,396	-	-	-	5,883	-	-	-	3,000	-	-	-	2,969	-	**37,248**
Loans and advances derecognised/ reclassified as held for sale	-	-	(9,022)	-	-	-	(6,607)	-	-	-	(56)	-	-	-	(10,833)	-	**(26,518)**
Amounts written-off	-	-	(28,138)	-	-	-	(39,016)	-	-	-	(12,126)	-	-	-	(44,642)	-	**(123,922)**
Unwinding of discount	-	-	(1,824)	-	-	-	(4,792)	-	-	-	(1,402)	-	-	-	(4,595)	-	**(12,613)**
Foreign exchange differences and other movements	71	1	1,994	(1,806)	-	-	(2,882)	680	1	-	2,882	15	91	50	(4,445)	616	**(2,732)**
Impairment allowance as at 31 December	**13,750**	**8,557**	**51,877**	**5,271**	**3,881**	**3,752**	**58,878**	**836**	**12,071**	**10,292**	**34,353**	**15**	**7,492**	**8,010**	**45,312**	**621**	**264,968**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

18 Loans and advances to customers (continued)

31 December 2019	Wholesale				Mortgage				Consumer				Small business				
	12-month ECL	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired -Stage 3**	**POCI**	**12-month ECL**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**POCI**	**12-month ECL**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired -Stage 3**	**POCI**	**12-month ECL**	**Lifetime ECL-Stage 2**	**Lifetime ECL credit-impaired -Stage 3**	**POCI**	**Total**
Impairment allowance as at 1 January	**3,046**	**2,149**	**53,270**	**-**	**2,860**	**3,275**	**105,665**	**171**	**8,038**	**3,539**	**29,217**	**1**	**6,488**	**3,997**	**115,244**	**35**	**336,995**
New loans and advances originated or purchased	1,268	-	-	1	763	-	-	153	5,723	-	-	-	2,748	-	-	5	**10,661**
Arising from acquisition/ merger	**9,874**	**-**	**-**	**12,641**	**1,150**	**-**	**-**	**485**	**1,575**	**-**	**-**	**70**	**1,134**	**-**	**-**	**352**	**27,281**
Transfers between stages:																	
-to 12-month ECL	*251*	*(251)*	*-*	*-*	*1,658*	*(678)*	*(980)*	*-*	*685*	*(564)*	*(121)*	*-*	*1,034*	*(969)*	*(65)*	*-*	*-*
-to lifetime ECL	*(8,662)*	*8,662*	*-*	*-*	*(329)*	*7,404*	*(7,075)*	*-*	*(1,005)*	*4,470*	*(3,465)*	*-*	*(543)*	*2,185*	*(1,642)*	*-*	*-*
-to lifetime ECL credit-impaired loans	*(32)*	*(435)*	*467*	*-*	*(23)*	*(579)*	*602*	*-*	*(102)*	*(689)*	*791*	*-*	*(88)*	*(541)*	*629*	*-*	*-*
Impact of ECL net remeasurement	(1,920)	(1,144)	9,305	-	798	575	23,258	-	916	551	11,458	-	586	435	43,606	-	**88,424**
Recoveries from written - off loans	-	-	23,567	-	-	-	4,035	-	-	-	2,986	-	-	-	3,829	-	**34,417**
Loans and advances derecognised/ reclassified as held for sale	-	-	(1,119)	-	-	-	(1,373)	-	-	-	-	-	-	-	(620)	-	**(3,112)**
Amounts written-off	-	-	(22,786)	-	-	-	(42,822)	-	-	-	(13,322)	-	-	-	(53,184)	-	**(132,114)**
Unwinding of discount	-	-	(2,065)	-	-	-	(6,974)	-	-	-	((1,295)	-	-	-	(8,226)	-	**(18,560)**
Foreign exchange differences and other movements	3,589	(1,241)	30,800	(5,565)	(4,064)	(7,645)	19,039	(653)	(5,289)	(1,891)	2,400	(71)	(3,213)	(383)	(26,918)	(387)	**(1,492)**
Impairment allowance as at 31 December	**7,414**	**7,740**	**48,435**	**7,077**	**2,813**	**2,352**	**99,253**	**156**	**10,541**	**5,416**	**25,267**	**-**	**8,146**	**4,724**	**81,447**	**5**	**310,786**

Loan commitments, financial guarantees and other commitments as of 31 December 2020 and as of 31 December 2019

	12-month ECL-Stage 1	**Lifetime ECL not credit-impaired-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**Total**
Impairment allowance as at 1 January 2019	**358**	**10**	**221**	**589**
New financial assets originated or purchased	187	-	-	**187**
Amounts charged during the year	(4)	1	(26)	**(29)**
Foreign exchange and other movements	(174)	-	(58)	**(232)**
Impairment allowance as at 31 December 2019	**367**	**11**	**137**	**515**

	12-month ECL-Stage 1	**Lifetime ECL not credit-impaired-Stage 2**	**Lifetime ECL credit-impaired-Stage 3**	**Total**
Impairment allowance as at 1 January 2020	**367**	**11**	**137**	**515**
New financial assets originated or purchased	151	-	-	**151**
Amounts charged during the year	16	-	3	**19**
Foreign exchange and other movements	(142)	(4)	(18)	**(164)**
Impairment allowance as at 31 December 2020	**392**	**7**	**122**	**521**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

18 Loans and advances to customers (continued)

	2020	2019
Impairment allowance as at 1 January	**310,786**	**336,995**
Arising from acquisition/ merger	-	27,281
Amounts written off	(123,922)	(132,114)
Movement recognized in profit or loss (Note 12)	82,719	66,370
Recoveries from written - off loans	37,248	34,417
Unwinding of Discount	(12,613)	(18,560)
Loans and advances derecognized during the year	(26,518)	-
Other movements (Collection costs, FX, Modification loss)	(2,732)	(3,603)
Impairment allowance as at 31 December	**264,968**	**310,786**

19 Investment securities

a) Investment securities breakdown	**2020**	**2019**
Investment securities at FVTPL	22,124	19,655
Investment securities measured at amortised cost	453,882	40,421
ECL on investment securities measured at amortised cost	(820)	(444)
Investment securities at FVOCI - debt instruments	987,891	519,643
Total	**1,463,077**	**579,275**
Equity securities		
Unlisted	22,124	19,655
Debt securities		
Listed	1,440,953	559,620
Total	**1,463,077**	**579,275**

b) Investment securities at FVOCI

The movement of investment securities at FVOCI is presented in the table below:

Fair value as at 31 December 2018	**378,858**
Arising from acquisition/ merger	57,251
Additions	136,027
Disposals	(51,727)
Change in accrued interest	1,205
Amortization of discounts or premium	(473)
Net fair value loss	(1,461)
Foreign Exchange differences from translation into entity currency	(37)
Fair value as at 31 December 2019	**519,643**
Additions	803,720
Disposals	(148,624)
Change in accrued interest	257
Amortisation of discounts and premium	(7,307)
Net fair value loss	(470)
Foreign exchange differences	(14,835)
Redemptions	(164,493)
Fair value as at 31 December 2020	**987,891**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

19 Investment securities (continued)

b) Investment securities at FVOCI (continued)

Gains less (losses) and impairment of investment securities	**2020**	**2019**
Transfer the fair value reserve from equity to income statement	(24)	3,237
Gains/ (Losses) OCI Bonds (Securities)	(4)	(113)
Gain/ (Losses) recognized on investment securities	3,312	1,907
Gains/ (Losses) on derivative fin. instruments (Hedging):	(213)	(61)
Total	**3,071**	**4,970**

c) Investment securities measured at amortized cost	**2020**	**2019**
Bonds issued by banks	453,882	19,179
ECL on Bonds issued by banks	(820)	(160)
Government bonds	-	21,242
ECL on Government bonds	-	(284)
Total	**453,062**	**39,977**

The following table presents the movement of loss allowance on Investment Securities:

	Investment securities measured at amortised cost 12-month ECL	**Investment securities measured at FVOCI** 12-month ECL
Balance at 1 January 2019	**583**	**408**
New financial assets originated or purchased	284	151
Changes due to change in ECL risk parameters (other than transfers)	(423)	(46)
Financial assets disposed during the period	-	(15)
Balance at 31 December 2019	**444**	**498**
New financial assets originated or purchased	**422**	**266**
Changes due to change in ECL risk parameters (other than transfers)	**(9)**	**(53)**
Financial assets disposed during the period	**(37)**	**(8)**
Balance at 31 December 2020	**820**	**703**

20 Investment property

Investment property is held for capital appreciation and is not occupied by the Bank.

Fair value of investment properties

The fair value of the investment property is updated in order to reflect the market conditions at the end of the reporting period by using the valuation reports of licensed appraiser company. The fair value of the investment property is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date. The best evidence of the fair value is current prices in an active market for similar properties. In the absence of such information, the fair value estimation of the external appraiser company is based on recent prices of properties with different condition or location, adjusted to reflect those differences.

For disclosure purposes fair value is based on reports prepared by a valuation company at the end of each reporting period. It is management’s assessment that there is sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

20 Investment property (continued)

Investment property	**2020**	**2019**
Beginning of the year	1,488	406
Arising from acquisition/ merger	-	1,086
Impairment	(436)	(4)
Modification	(162)	
Closing balance 31 December	**890**	**1,488**

As at 31 December 2020 the amount of Right of use of Investment Property included in the above table is BGN 436 thousand (2019: BGN 1,086 thousand).

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Class property	**Fair value 31/12/2020 (BGN th)**	**Valuation technique**	**Significant Unobservable Input**	**Range (weighted average) 2020 (BGN)**	**Range (weighted average) 2019 (BGN)**	**Connection between the unobservable input and FV**
Land	454	Market comparison approach	price per m2	13.41	11.87	A significant increase in price per m2 would result in a higher fair value
Commercial	436	Income approach	rent per m2	17.6	19.56	A significant increase in rent per m2 would result in a higher fair value
			discount rate	11.0%	11,03%	A significant increase in discount rate would result in a lower fair value

21. Property, plant and equipment

	Land and buildings	**Leasehold improve-ments**	**Plant and equipment**	**Land and buildings – Right of use assets**	**Motor Vehicles – Right of use assets**	**Total property, plant and equipment**
At 31 December 2018						
Gross amount	**94,394**	**27,864**	**87,960**	**-**	**-**	**210,218**
Accumulated depreciation	**(4,412)**	**(20,322)**	**(60,396)**	**-**	**-**	**(85,130)**
Net book amount	**89,982**	**7,542**	**27,564**	**-**	**-**	**125,088**
Year ended 31 December 2019						
Opening net book amount	89,982	7,542	27,564	-	-	**125,088**
Recognition of right-of-use asset on initial application of IFRS 16	-	-	-	43,139	1,545	**44,684**
Additions	1,014	1,209	7,377	8,554	1,159	**19,313**
Revaluation and write offs	327	(1,343)	(1,079)	-	-	**(2,095)**
Arising from acquisition/ merger	9,091	1,336	4,854	10,182	-	**25,463**
Termination / Modifications	-	-	-	8,881	-	**8,881**
Movement in accumulated depreciation						
Depreciation charge (Note 10)	(1,943)	(1,734)	(4,718)	(10,712)	(631)	**(19,738)**
Arising from acquisition/ merger				(707)		**(707)**
Termination/ Modifications	-	-	-	98	-	**98**
Closing net book amount	**98,471**	**7,010**	**33,998**	**59,435**	**2,073**	**200,987**
At 31 December 2019						
Gross amount	**103,372**	**29,426**	**98,105**	**70,756**	**2,704**	**304,363**
Accumulated depreciation	**(4,901)**	**(22,416)**	**(64,107)**	**(11,321)**	**(631)**	**(103,376)**
Net book amount	**98,471**	**7,010**	**33,998**	**59,435**	**2,073**	**200,987**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

21. Property, plant and equipment (continued)

Year ended 31 December 2020						
Opening net book amount	**98,471**	**7,010**	**33,998**	**59,435**	**2,073**	**200,987**
Additions	675	7,270	11,038	3,666	304	**22,953**
Revaluation, impairment and write offs	873	(976)	(683)	-	-	**(786)**
Transfers	-	(128)				**(128)**
Arising from acquisition of subsidiaries	-	-	45	-	-	**45**
Termination / Modifications	-	-	-	8,710	(48)	**8,662**
Movement in accumulated depreciation						
Depreciation charge (Note 10)	(2,137)	(1,738)	(5,850)	(12,690)	(978)	**(23,393)**
Termination / Modifications	-	-	-	2,867	48	**2,915**
Closing net book amount	**97,882**	**11,438**	**38,548**	**61,988**	**1,399**	**211,255**
At 31 December 2020						
Gross amount	99,287	36,423	104,347	83,133	2,960	**326,150**
Accumulated depreciation	(1,405)	(24,985)	(65,799)	(21,145)	(1,561)	**(114,895)**
Net book amount	**97,882**	**11,438**	**38,548**	**61,988**	**1,399**	**211,255**

	2020	**2019**
Land and buildings at revalued amount	**97,882**	**98,471**
Revaluation reserve, net of tax	(2,766)	(1,855)
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	2,286	1,361
Deferred tax on revaluation	(307)	(206)
Land and buildings at cost less accumulated depreciation	**97,095**	**97,771**

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Class property	**Fair value 31/12/2020 in BGN thousands**	**Valuation technique**	**Significant Unobservable Input**	**Range (weighted average) 2020 in BGN**	**Range (weighted average) 2019 in BGN**
Land	13,573	Income approach	rent per m2	22.37	23.11
Land	926	Market comparison approach	price per m2	12.97 - 681.00 (84.11)	14.32 - 688.00 (85.86)
Office	76,384	Income approach	rent per m2	4.01 - 22.37 (19.67)	4.26 - 23.12 (19.72)
Office	6,999	Market comparison approach	price per m2	91.24 – 2,288.32 (441.12)	74.89 – 2,546.49 (416.89)
Total	**97,882**				

Land and buildings in their entirety are classified as Level 3 assets in the fair value hierarchy, thus the Level 3 movement reconciliation for the year can be found in the above tables.

(All amounts are shown in BGN thousands unless otherwise stated)
Notes to the financial statements (continued)

22 Intangible assets

At 31 December 2018	Sotware	Licenses	Internally developed	Other	Total intangible assets
Gross book amount	**44,588**	**34,015**	**6,829**	**25,077**	**110,509**
Accumulated amortisation	**(19,320)**	**(18,261)**	**(2,195)**	**(12,197)**	**(51,973)**
Net book amount	**25,268**	**15,754**	**4,634**	**12,880**	**58,536**
Year ended 31 December 2019					
Opening net book amount	**25,268**	**15,754**	**4,634**	**12,880**	**58,536**
Additions	6,834	2,213	66	2,118	**11,231**
Revaluation and write offs	(1,450)	(1,127)	-	-	**(2,577)**
Arising from acquisition/ merger	1,400	1,402	-	-	**2,802**
Amortisation charge (Note 10)	(3,436)	(2,927)	(519)	(1,260)	**(8,142)**
Closing net book amount	**28,616**	**15,315**	**4,181**	**13,738**	**61,850**
At 31 December 2019					
Gross book amount	**50,828**	**36,622**	**6,895**	**27,194**	**121,539**
Accumulated amortisation	**(22,212)**	**(21,307)**	**(2,714)**	**(13,456)**	**(59,689)**
Net book amount	**28,616**	**15,315**	**4,181**	**13,738**	**61,850**
Year ended 31 December 2020					
Opening net book amount	**28,616**	**15,315**	**4,181**	**13,738**	**61,850**
Additions	16,994	3,149	941	2,087	**23,171**
Arising from acquisition/ merger	356	18	-	-	**374**
Transfers	1,448	(1,320)	-	-	**128**
Amortisation charge (Note 10)	(3,609)	(3,304)	(463)	(1,231)	**(8,607)**
Closing net book amount	**43,805**	**13,858**	**4,659**	**14,594**	**76,916**

At 31 December 2020	Sotware	Licenses	Internally developed	Other	Total intangible fixed assets
Gross book amount	65,370	32,389	7,563	29,387	**134,709**
Accumulated amortisation	(21,565)	(18,531)	(2,904)	(14,793)	**(57,793)**
Net book amount	**43,805**	**13,858**	**4,659**	**14,594**	**76,916**

23 Other assets	2020	2019
Amounts in transit	15,447	11,401
Repossessed collaterals	15,647	11,999
Other debtors	5,787	5,998
Prepaid expenses	10,066	6,957
Other assets	1,638	2,738
Materials	246	24
Less: impairment on other financial assets	(3,468)	(2,378)
Total	**45,363**	**36,739**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

23 Other assets (continued)

The financial assets contained in the Other assets note amounted to BGN 19,404 thousand (2019: BGN 17,758 thousand). The impairment on financial assets amounted to BGN 3,468 thousand (2019: BGN 2,378 thousand). BGN 25,959 thousand (2019: BGN 18,981 thousand) of the non-financial assets are expected to be realized within 12 months.

Impairment on other financial assets movement	**2020**	**2019**
Opening balance at 1st of January	2,378	1,337
Charged to the income statement	1,669	401
Reversed to the income statement	(252)	(153)
Used/Increased during year	(327)	793
Closing balance 31 December	**3,468**	**2,378**

24 Deposits from banks

	2020	**2019**
Current accounts from other banks	7,383	6,843
Deposits from other banks	356	8,193
Total	**7,739**	**15,036**

25 Derivative financial instruments

The Bank enters into the following derivative contracts for either hedging or non-hedging (business) purposes: currency forwards, currency swaps, interest rate swaps, cross currency interest rate swaps, forward rate agreements, currency options and interest rate options.
Currency forward contracts are obligations to trade one currency for another at a specified exchange rate on a specific future delivery date. Being OTC contracts, currency forwards can be designed to exactly fit the clients' requirements as to the principal amount in the trade, its exact delivery date and which currencies are involved.

Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or a combination of currencies and interest rates (i.e., cross-currency interest rate swaps). The Bank's credit risk is represented by the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. Since currency swaps may call for a final exchange of principal (increased importance of the diffusion effect), the potential credit exposure profile tends to be upward sloping. This risk is monitored on an on-going and forward looking basis with reference to the current fair value, a proportion of the notional amount of the contracts and the potential future exposure. To control the level of credit risk taken, the Bank assesses counterparties using the similar techniques as for its lending activities.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates. The expected and maximum potential exposure profiles for an interest rate swap are estimated by a modeling exercise at inception. These depend on the "diffusion effect" (volatility of the underlying as well as other stochastic properties) and "amortization effect" (the passage of time). The peak exposure occurs at an intermediate point during the swap's life. Since the notional amounts themselves are not exchanged, the percentage of notional amount at risk is relatively low in normal market conditions.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

25. Derivative financial instruments (continued)

A forward rate agreement (FRA) is an agreement between two parties in which one party, the buyer or the long, agrees to make a known interest payment to the other party, the seller or the short, at a future date, with the seller agreeing to make an interest payment to the buyer based on an unknown rate that will be determined when the contract expires. Most FRAs are based on well-established interest rates such as dollar LIBOR or EURIBOR.

Options are financial instruments that give one party the right, but not the obligation, to buy or sell an underlying asset from or to another party at a fixed price over a specific period of time (also referred to as contingent claims). Options do not generally have periodic payments but are characterized by an up-front payment of the option premium and a final option payoff payment. The amortization effect is limited and is outweighed by the diffusion effect – a longer time period translates into a greater scope for movements in the underlying variable, which can generate a large exposure on the option payoff.

The notional amounts of certain types of financial instrument provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or market risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

		Fair values	
Year ended 31 December 2020	**Contract / notional amount**	**Assets**	**Liabilities**
Derivatives that do not qualify for hedge accounting and held for trading			
Foreign exchange derivatives			
OTC currency swaps	1,296,684	277	2,824
Total OTC currency derivatives for trading	**1,296,684**	**277**	**2,824**
Interest rate derivatives			
OTC interest rate swaps	23,470	1,067	1,426
OTC IR options bought and sold	67,626	8	8
Total OTC interest rate derivatives for trading	**91,096**	**1,075**	**1,434**
Derivatives designated as fair value hedges			
OTC interest rate swaps	138,668	-	5,184
Total OTC interest rate derivatives for hedging	**138,668**	**-**	**5,184**
Total recognised derivative assets / liabilities		**1,352**	**9,442**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

25 Derivative financial instruments (continued)

Year ended 31 December 2019	Contract / notional amount	Fair values Assets	Fair values Liabilities
Derivatives that do not qualify for hedge accounting and held for trading			
Foreign exchange derivatives			
OTC currency swaps	1,446,500	300	2,182
Total OTC currency derivatives for trading	**1,446,500**	**300**	**2,182**
Interest rate derivatives			
OTC interest rate swaps	38,693	1,016	1,799
Total OTC interest rate derivatives for trading	**38,693**	**1,016**	**1,799**
Derivatives designated as fair value hedges			
OTC interest rate swaps	138,668	186	4,372
Total OTC interest rate derivatives for hedging	**138,668**	**186**	**4,372**
Total recognised derivative assets / liabilities		**1,502**	**8,353**

The Bank hedges a proportion of its existing interest rate risk resulting from any potential change in the fair value of fixed rate debt securities held, denominated both in local and in foreign currencies, using interest rate swaps.
In 2020 the Bank recognized a loss of BGN 973 thousand (2019: BGN 850 thousand loss) from changes in the fair value of the hedging instruments, used as the basis of recognising hedge ineffectiveness and BGN 991 thousand gain (2019: BGN 820 thousand gain) from changes in the fair value of the hedged items attributable to the hedged risk. The amount of hedge ineffectiveness recognized for 2020 in the income statement was BGN 18 thousand gain (2019 BGN 30 thousand loss). In 2020 the fair value hedges were highly effective (2019: highly effective).

Fair value hedges

At 31 December 2020, the amounts relating to items designated as FV hedged items were as follows:

Year ended 31 December 2020 Fair Value Hedges	Carrying amount	Accumulated amount of FV hedge adjustments on the hedged item	Change in value as the basis for recognising hedge ineffectiveness
Debt securities	152,234	(4,034)	-
Total	**152,234**	**(4,034)**	**-**

At 31 December 2020, the accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses was BGN 0 (2019: BGN 0).

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

25 Derivative financial instruments (continued)

At 31 December 2020, the timing of the nominal amount of the financial instruments designated by the Bank in Fair value hedge relationships is presented in the table below :

Year ended 31 December 2020

	Fair Value Hedges					
Nominal Amount	**Less than 1 month**	**1 - 3 months**	**3 - 12 months**	**1-5 years**	**Over 5 years**	**Total**
Interest rate swaps	-	-	-	107,571	31,097	**138,668**
Total	**-**	**-**	**-**	**107,571**	**31,097**	**138,668**

26 Due to customers

	2020	**2019**
Large corporate customers	1,966,814	1,994,518
Medium corporate customers	597,649	458,042
Total due to corporate customers	**2,564,463**	**2,452,560**
Retail customers	7,670,022	6,985,525
Total due to customers	**10,234,485**	**9,438,085**

Included within due to customers is related accrued interest payable of BGN 2,011 thousand (2019: BGN 3,605 thousand).

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

27 Other borrowed funds

	2020	2019
Long term debt from Bulgarian Development Bank	25,475	31,139
European Bank for Reconstruction and Development	3,895	7,785
Total	**29,370**	**38,924**

Reconciliation of movements of liabilities to cash flows arising from financing activities is presented in the table below:

	2020	2019
Opening balance at 1 January	**38,924**	**22,973**
New funding	-	22,527
Repayment of long-term debt (principal)	(9,566)	(6,548)
Interest expense	511	379
Interest paid	(480)	(363)
Deferred expenses	(19)	(44)
Balance at 31 December	**29,370**	**38,924**

a) Loans received from the Bulgarian Development Bank

In July 2015, Eurobank Bulgaria signed a Loan Agreement with Bulgarian Development Bank (NAPRED) for on-lending to MSMEs combining funding and risk-sharing. The total size of the facility is BGN 30,000 thousand, disbursable in 3 tranches of BGN 10,000 thousand each in accordance with the contracted disbursement plan. As of 31 December 2020 the total liability amounted to BGN 15,903 thousand (2019: BGN 19,438 thousand).

With the acquisition of Piraeus Bank Bulgaria AD, Eurobank Bulgaria AD has inherited a loan agreement from Bulgarian Development Bank under NAPRED framework. The loan agreement is under similar terms to the one originated by Postbank in 2015–supporting MSMEs and combining funding and risk sharing. As of 31 December 2020, the total liability amounted to BGN 9,572 thousand (2019: BGN 11,701 thousand).

b) Loan from the European Bank for Reconstruction and Development

With the acquisition of Piraeus Bank Bulgaria AD, Eurobank Bulgaria AD has inherited a loan agreement from the European Bank for Reconstruction and Development under Residential Energy Efficiency Credit Line (REECL) framework. The loan agreement originates from July 2016 and its purpose is to finance energy efficiency improvements for individuals and companies. The total agreed amount of the loan is up to EUR 10,000 thousand (BGN 19,558 thousand) arranged in two tranches (A&B), of which only Tranche A of EUR 5,000 thousand (BGN 9,779 thousand) was disbursed. As of 31 December 2020, the total liability under this contract amounts to BGN 3,895 thousand (2019: BGN 7,785 thousand).

c) Financing under the Guarantee Agreement between Eurobank Bulgaria and International Finance Corporation (IFC), member of the World Bank Group.

In February 2012, Eurobank Bulgaria and the International Finance Corporation (IFC), member of the World Bank Group, signed a Trade Finance Agreement for facilitation of trade transactions of local enterprises (short-term funding of pre-export/import transactions, issuance of bank guarantees and letters of credit). The total limit of the line was initially set at USD 20,000 thousand. In December 2013 the Limit was increased up to USD 40,000 thousand. As of 31 December 2020 and 2019 the utilization of that line is BGN 0.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

28 Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 10% (2019: 10%). The movement on the deferred tax account is as follows:

	2020	2019
Deferred tax liability at the beginning of year	(16,050)	2,001
Deferred tax asset arising from acquisition/ merger	-	(618)
Deferred tax asset, net, recognized in Bargain Gain	-	(16,915)
Deferred tax asset, net, recognized in Merger Reserve	-	(92)
Deferred tax liability, net, recognized in OCI	152	73
Deferred tax expense/ (benefit) (Note 13)	4,707	(499)
Net deferred tax (asset) / liability at end of year	**(11,191)**	**(16,050)**

Deferred tax assets and liabilities are attributable to the following items:

	2020	2019
Deferred tax liabilities		
Arising from acquisition/ merger	-	205
Accelerated tax depreciation	4,469	4,320
Property revaluation	307	206
Gain on share exchange	519	416
Deferred tax liability on bargain gain (FV of securities, LG/ LC)	384	393
IFRS 16 contracts	1,551	-
	7,230	**5,540**
Deferred tax assets		
Arising from acquisition/ merger	-	822
Unused holidays	140	109
Provision for legal proceedings	1,080	1,154
Provision for retirement benefit obligations	835	482
Deferred tax assets on actuarial loss	(11)	39
Deferred tax assets on provisions for restructuring	541	2,185
Deferred tax assets on bargain gain (FV of loans, shares)	12,800	16,046
Deferred tax asset on investment property IFRS 16	464	-
Other temporary differences	1,199	753
IFRS 16 contracts	1,373	-
	18,421	**21,590**

The deferred tax charge/ (credit) in the income statement comprises of the following temporary difference:

	2020	2019
Depreciation	46	631
Unused holidays	43	19
Provision for legal proceedings and off balances	121	(367)
Other temporary differences	(446)	(175)
Provisions for restructuring and other liabilities	1,644	(2,004)
Provision for retirement benefit obligations	(68)	41
DTA PBB transaction	3,238	1,356
DTA invetsment property IFRS 16	(49)	-
DTL IFRS 16 contracts	1,551	-
DTA IFRS 16 contracts	(1,373)	-
Net deferred tax expense/ (benefit) (Note 13)	**4,707**	**(499)**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

29 Provisions for other liabilities and charges

(a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business. The timing of the expected cash outflow of the court cases provided for could not be precisely estimated. Based on management's estimation it is expected that in two years' time the outflow may be realized. Further details are presented in Note 35a.
The table below represents the movement in provisions for legal claims:

Legal provisions	**2020**	**2019**
Opening balance at 1st of January	12,013	6,513
Charged to the income statement	3,115	6,481
Used during year	(2,484)	(981)
Reversed during the year	(1,616)	-
Closing balance	**11,028**	**12,013**

(b) Provisions for restructuring

In 2019 the Bank recognized provisions for restructuring in accordance with IAS 37, following the approval of a formal restructuring plan in view of the acquisition of Piraeus Bank Bulgaria. The plan envisaged material contracts, branch locations and staff optimization and is expected to take place in three year horizon, following the merger.
The table below presents movement in provision for restructuring:

Provisions for restructuring	**2020**	**2019**
Opening balance at 1st of January	14,570	304
Charged to the income statement	-	31,848
Used during year	(12,172)	(12,754)
Reversed during the year	-	(4,828)
Closing balance	**2,398**	**14,570**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

29 Provisions for other liabilities and charges (continued)

(c) Assets pledged

Assets are pledged as collateral for government budget accounts and under long term debt agreement signed with Bulgarian Development Bank and under Securities lending agreement with Deutsche Bank. Mandatory reserves calculated as a percentage of the deposit base are held with the Central Bank in accordance with statutory requirements for securing liquidity.

	Asset		**Related liability**	
	2020	**2019**	**2020**	**2019**
Cash with Central bank (held as mandatory reserve)	924,678	834,167	10,244,748	9,447,037
Trading and investment securities (pledged under government accounts)	84,293	85,761	53,806	58,093
Investment securities (pledged under EBRD funding)	7,967	12,280	3,895	7,785
Investment securities (pledged under Securities lending agreement)	158,830	-	-	-
Loans pledged under long term debt agreement	15,034	19,878	25,474	39,139
Total	**1,190,802**	**952,086**	**10,327,923**	**9,552,054**

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) as of 31 December 2020 was BGN 1,190,802 thousand (2019: BGN 952,086 thousand). These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as an intermediary. The amount of BGN 263 thousand (2019: BGN 263 thousand) is blocked in a BNB account under a disputed court ruling. Pledged funds under Credit Support agreements are BGN 10,620 thousand (2019: BGN 3,775 thousand). The Bank has determined that it retains substantially all the risks and rewards of the pledged loans and trading and investment securities, therefore the specific assets have not been derecognized. The related liability is recognised in Due to customers (note 26) and Other borrowed funds (note 27), as appropriate.

30 Retirement benefits obligations

IAS 19 establishes the principle that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable.

Defined benefit plans involves incorporating actuarial assumptions into measurement of the obligation and the expenses. Therefore, actuarial gain and losses arise. Obligations are measured on a discounted basis, as they might be settled many years after the employees render the related services.

According to the revised IAS 19, the liability for employee benefits recognized on the balance sheet at the end of the fiscal year is equal to the balance sheet obligation at the beginning of the year after the effect of:

- service cost
- interest cost
- employers contributions
- paid benefits
- gains or losses from curtailment and settlements
- gains or losses in actuarial liability or in the assets of the plan

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

30 Retirement benefits obligations (continued)

	2020	2019
Retirement benefit obligation at 01 January	8,062	5,429
Arising from acquisition/ merger	-	2,852
Service cost	810	602
Interest cost	77	116
Benefits paid	(207)	(213)
Settlement/Curtailment	-	(917)
Remeasurement	(504)	193
Retirement benefit obligation at 31 December	**8,238**	**8,062**
Expenses recognised in profit or loss		
Service cost	810	602
Interest cost	77	116
Settlement/Curtailment	-	(917)
Total (income) / expense included in staff costs (Note 11)	**887**	**(199)**
Total remeasurement recognised in OCI	**(504)**	**193**

Significant actuarial assumptions	**2020**	**2019**
Discount rate	0.95%	0.96%
Future salary increase:		
2021:	5.00%	5.00%
2022:	4.00%	4.00%
2023:	2.20%	-

IAS19 requires the use of a discount rate determined by reference to the yield at the measurement date on high quality corporate debt, or Government bonds if there is no deep market in such debt. The discount rate should reflect the rate at which the liabilities could effectively be settled. The discount rate was set by reference to the yield on long-term fixed interest bonds issued by the Bulgarian Government.

Sensitivity analysis

A quantitative sensitivity analysis based on reasonable changes to significant actuarial assumptions as at 31 December 2020 is as follows:

An increase/a decrease of the discount rate assumed by 0.5% would result in a decrease/an increase of the standard legal staff retirement obligations by 8.3% or BGN 684 thousand/by 9.1% or BGN 750 thousand.

An increase/a decrease of the future salary increases assumed, by 0.5%, would result in an increase/a decrease of the standard legal staff retirement obligations by 9.3% or BGN 766 thousand/ by 8.2% or BGN 676 thousand.

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

The methods and assumptions used in preparing the above sensitivity analysis were consistent with those used to estimate the retirement benefit obligation and did not change compared to the previous period.

31 Other liabilities

	2020	2019
Lease liabilities	66,811	66,565
Other creditors	53,219	64,716
Accrued expenses	42,433	28,298
Withholding tax obligations	10,494	11,593
Unused paid leave accrual	1,398	1,833
Staff pensions	459	-
Deferred income	334	335
Other	2,454	2,023
Total	**177,602**	**175,363**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

31 Other Liabilities (continued)

As at 31 December 2020 the financial liabilities contained in the Other liabilities note amounted to BGN 134,367 thousand (2019: BGN 141,445 thousand).

32 Capital and reserves

a) Share capital

As at 31 December, 2020 and 2019 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 with a nominal value of BGN 1 per share. Eurobank S.A. owns directly 56.14%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V. and 0.01% by minority shareholders.

During 2019 the Bank has acquired its own shares in the amount of 457 shares, according the procedure with the buy-back shares done to guarantee the minor shareholders of Piraeus Bank Bulgaria AD related to the merger.

b) Nature and purpose of reserves

i) Statutory reserve

According to Article 246 of the Bulgarian Commerce Act, the Bank shall set aside at least one tenth of its profit in a Statutory reserve fund, until it reaches one tenth or more of the Bank’s equity. Disbursement from the reserve fund may be made only to cover losses from the current or previous years. As per Banking legislation, funds accumulated in the Statutory Reserve account cannot be distributed as dividends without the consent of the Local Bank Regulator.

ii) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognized or reclassified. The amount is adjusted by the amount of loss allowance (see note 2.2.10)

iii) Property revaluation reserve

The Property revaluation reserve comprises the fair value change of land and building as far as the Bank applies the IAS 16 revaluation model, which presumes that the asset is carried at its revalued amount, being its fair value at the date of revaluation, subsequent depreciation and impairment, provided that fair value can be determined reliably (see Note 2.2.7)

c) Dividends

In 2020 and 2019 the Bank did not pay dividend on ordinary shares.

33 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 90 days maturity from the date of origination:

	2020	2019
Cash in hand (Note 15)	142,215	150,938
Balances with Central bank excluding the minimum level of mandatory reserves	1,331,295	886,292
Loans and advances to banks	418,256	1,702,796
Total amount of cash and cash equivalents	**1,891,766**	**2,740,026**
Less impairment allowance	(44)	(90)
Net amount of cash and cash equivalents	**1,891,722**	**2,739,936**

50% of the minimum level of mandatory reserves held in BNB are considered cash equivalent, as the Bank is allowed to use them at any time and free of interest.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

34 Related party transactions

On 20 March 2020, Eurobank Ergasias S.A. (“Demerged Entity”) announced that its demerger through the banking sector’s hive down and the establishment of a new company-credit institution (“Demerger”) under the corporate name “Eurobank S.A.” (“Bank”) was approved, while on 23 March 2020 the Demerged Entity was renamed to “Eurobank Ergasias Services and Holdings S.A.” (“Company” or “Eurobank Holdings’’). Following the above, the key management personnel (KMP) of the Demerged Entity remained as the Bank’s KMP. Furthermore, the Board of Directors (BoD) of Eurobank Holdings is the same as the BoD of the Bank and part of the KMP of the Bank provides services to Eurobank Holdings according to the terms of the relevant agreement between the two entities. As at 31 December 2020, the percentage of the Company’s ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF) stands at 1.40%. The HFSF is considered to have significant influence over the Company pursuant to the provisions of the Law 3864/2010, as in force, the Relationship Framework Agreement (RFA) the Demerged Entity has entered into with the HFSF on 4 December 2015 and the Tripartite Relationship Framework Agreement (TRFA) between the Bank, the Company and the HFSF signed on 23 March 2020.

In addition, as of December 2019, Fairfax Financial Holdings Limited has obtained the required regulatory approvals in relation to the increase of its shareholding in the Demerged Entity, which arose from the merger of the latter with Grivalia Properties REIC in the same year. Accordingly, Fairfax group, which as at 31 December 2020 holds 31.27% in the Company’s share capital, is considered to have significant influence over the Company.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and guarantees. In addition, as part of its normal course of business in investment banking activities, the Group at times may hold positions in debt and equity instruments of related parties.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

34 Related party transactions (continued)

The volumes of related-party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

	31 December 2020			31 December 2019		
	Parent company	**Other Group companies***	**Key management personnel**	**Parent company**	**Other Group companies***	**Key management personnel**
Purchased loans and advances to customers (Note 18)	-	23,949	-	-	6,350	-
Loans and advances to banks (weighted interest rate 2020: 1.33%, 2019: 1.7%)	319,314	97,812	-	1,513,442	-	-
Loans and advances to customers (weighted interest rate 2020: 0.58%, 2019: 1.88%)	-	136,935	12	-	21,254	91
Debt securities lending	-	11,741	-	-	19,179	-
Derivative financial instruments assets	1,357	-	-	1,495	-	-
Other assets	-	33	-	-	21	-
Shares in subsidiary undertakings	-	-	-	-	6,763	-
Due to other banks	1,070	4,471	-	2,288	2,152	-
Due to customers (weighted interest rate 2020: 0.002% , 2019: 0.001%)	-	8,787	1,312	-	9,548	245
Derivatives Liabilities	8,008	-	-	6,554	-	-
Other liabilities	-	69	-	-	79	-
Interest income	8,237	7,764	1	36,709	1,871	1
Interest expense	(1,999)	(655)	-	(2,638)	(598)	-
Fee and commission income	18	507	-	1	402	-
Fee and commission expense	(139)	(15)	-	(86)	(2)	-
Net trading (expense)/ income	1,220	(1,345)	-	1,056	-	-
Salaries and other short-term benefits	-	-	2,976	-	-	2,425
Rental income/(expense)	-	17	-	-	225	-
Other expenses	(1,349)	(20)	-	(1,211)	(192)	-
Letters of guarantee received	136,908	782	-	5,867	1,565	-
Shares buy-back	-	-	-	31	-	-

*represent other entities under common control

All loans lent to related parties as at 31 December 2020 and as at 31 December 2019 are categorized as non impaired (Stage 1) according to the Bank's provision policy.

The ultimate controlling party of the Bank is Eurobank S.A

Key management personnel include the members of the Management and Supervisory Boards.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

34 Related party transactions (continued)

A list of the related parties of the Bank during 2020 is presented in the table below:

Related party (company name)	Country	Related company category
Eurobank S.A.	Greece	Parent company
ERB Hellas Plc	United Kingdom	Other company within the Group
Eurobank Factors S.A.	Greece	Other company within the Group
Be-Business Exchanges S.A.	Greece	Other company within the Group
Eurobank A.D. Beograd	Serbia	Other company within the Group
Eurobank Fund Management Company (Luxembourg) S.A.	Luxembourg	Other company within the Group
ERB IT Shared Services S.A.	Romania	Other company within the Group
Eurobank Holding (Luxembourg) S.A.	Luxembourg	Other company within the Group
Eurobank Cyprus Limited	Cyprus	Other company within the Group
CEH Balkan Holdings Limited	Cyprus	Other company within the Group
IMO Property Investments Sofia E.A.D.	Bulgaria	Other company within the Group
IMO 03 E.A.D.	Bulgaria	Other company within the Group
Eurobank Private Bank Luxembourg S.A.	Luxembourg	Other company within the Group
ERB Leasing Bulgaria E.A.D.*	Bulgaria	Other company within the Group

*The entity is merged in the year

35 Contingent liabilities and other commitments

(a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business. Besides the provision made (Note 29) no contingent liabilities associated with legal actions have been disclosed as professional advice indicates that the possibility of any significant loss is remote.

(b) Loan commitments, guarantee and letters of credit

As at 31 December 2020 and 31 December 2019, the Bank had the contractual amounts of its off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2020	**2019**
Guarantees	202,864	235,395
Letters of credit	35,195	60,658
Loan commitments and other credit related liabilities	1,584,961	1,349,801
Total	**1,823,020**	**1,645,854**

(c) Capital Expenditures

As at 31 December 2020, the Bank had the following capital expenditure commitments:

	2020	**2019**
Capital Expenditures	**4,868**	**13,631**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

36 Leases

The Bank as a lessee

The Bank leases office and branch premises and motor vehicles.

The majority of the Bank's property leases are under long term agreements (for a term of 12 months or more in the case of leased real estate assets), with options to extend or terminate the lease according to the terms of each contract and the usual terms and conditions of commercial leases applicable in each jurisdiction, while motor vehicles generally have lease terms of up to 4 years. Extension options held by the Bank are included in the lease term when it is reasonably certain that they will be exercised based on its assessment.

Information about the leases for which the Bank is a lessee is presented below:

Right-of-Use Assets

As at 31 December 2020, the right-of-use assets included in property plant and equipment amounted to BGN 63,387 thousand (2019: BGN 61,508 thousand) (Note 21), while those that meet the definition of investment property amounted to BGN 436 thousand (2019: BGN 1,086 thousand) (Note 20).

Lease Liabilities

As at 31 December 2020 the lease liability included under other liabilities amounted to BGN 66,811 thousand (2019: BGN 66,565 thousand) (Note 31). The maturity analysis of lease liabilities based on the contractual undiscounted cash flows, is presented in note 5.2.3 – Liquidity Risk.

Amounts recognised in profit or loss

Interest on lease liabilities is presented in Note 6 and the lease expense relating to short term leases is presented in Note 10.

The Bank had total cash outflows for leases of BGN 15,464 thousand in 2020 (BGN 13,709 thousand in 2019).

The Bank as a lessor

Operating Leases

The Bank leases out its investment property under the usual terms and conditions of commercial leases applicable in each jurisdiction. When such leases do not transfer substantially all of the risks and rewards incidental to the ownership of the leased assets, the Bank classifies these lease as operating leases.

The maturity analysis of operating lease receivables, based on the undiscounted lease payments to be received after the reporting date, is provided below:

	2020	**2019**
Not later than one year	284	357
One to two years	272	340
Two to three years	234	294
Three to four years	121	183
Four to five years	85	147
More than five years	149	594
Total	**1,145**	**1,915**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

36 Leases (continued)

Finance Lease

Following the merger of ERB Leasing Bulgaria EAD during 2020, Loans and advances to customers in the Bank include finance lease receivables.

The maturity analysis as at 31 December 2020 of finance lease receivables, based on the undiscounted lease payments to be received after the reporting date, is provided below:

	2020
Not later than one year	10,725
One to two years	6,735
Two to three years	4,191
Three to four years	1,900
Four to five years	890
More than five years	14
Gross investment in finance leases	**24,455**
Less: unearned finance income	(1,732)
Net investment in finance leases	**22,723**
Less: impairment allowance	(1,505)
Total	**21,218**

37 Shares in subsidiary undertakings

As at 31 December 2020, following the merger of ERB Leasing Bulgaria EAD into Eurobank Bulgaria, the Bank has no shares in subsidiaries (2019: BGN 6,763 thousand).

38 Acquisitions and mergers

Acquisition of ERB Leasing Bulgaria EAD by Eurobank Bulgaria A.D.

On 4 February 2020, based on the requirements of Commercial Act, art.262, para (1) ERB Leasing Bulgaria AD was merged with Eurobank Bulgaria AD.
The fair values of the identifiable assets and liabilities as of the date of acquisition are presented in the table below:

	Carrying amount/ Fair Value
Loans and advances to banks	1,207
Loans and advances to customers	23,949
Property, plant and equipment and intangible assets	418
Other assets	23
Total assets	**25,597**
Due to Banks	20,312
Other liabilities	1,178
Total liabilities	**21,490**
Total shareholders’ equity	**4,107**
Total shareholders’ equity and liabilities	**25,597**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

38 Acquisitions and mergers (continued)

Acquisition of Piraeus Bank Bulgaria A.D. by Eurobank Bulgaria A.D.

In November 2018, the Bank announced that it had concluded an agreement with Piraeus Bank S.A. for the acquisition of 99.98% of voting rights of Piraeus Bank Bulgaria A.D. (“PBB”), a subsidiary of Piraeus Bank S.A. (the “Transaction”).

In June 2019, the Transaction was concluded, following the receipt of the relevant regulatory approvals.
The final consideration of the Transaction amounted to BGN 150,956 thousand of which BGN 107,571 thousand cash, BGN 4,354 thousand additional amount payble based on the finalized pre-closing audit of Net Asset Value (NAV) of PBB and BGN 39,031 thousand net present value of deferred consideration, payable within a four year period. The bargain purchase arose as the transaction represented the last major milestone towards the conclusion of Piraeus Bank S.A.’s Restructuring Plan commitments, as agreed with the European Commission
The acquisition was accounted for as a business combination using the purchase method of accounting.
The resulting gain on the acquisition of PBB, amounting to BGN 78,690 thousand is attributed to the particular circumstances of the acquisition, in line with the restructuring plan of the seller and Eurobank Group’s strategy to focus on Bulgarian market. The above gain is considered non-taxable under the local corporate tax framework.
In relation with the Transaction, on 13 June 2019 the Bank and Piraeus Bank S.A. signed assignment agreements for PBB Subordinated Debt and Hybrid Capital, amounting to BGN 134,554 thousand, which effectively transferred all rights and obligations under the original contracts from Piraeus Bank S.A. to the Bank. These contracts between the Bank and PBB were effectively canceled out at the legal merger of the two entities.
Additionally on 13 June 2019 a Cash Collateral Assignment agreement for the amount of BGN 123, 374 thousand was signed between Eurobank Ergasias S.A. and Piraeus Bank S.A., which effectively transferred all rights and obligations under the cash collateral contract from Piraeus Bank S.A. to Eurobank Ergasias S.A. The cash collateral agreements between PBB and Eurobank Ergasias S.A. were terminated on 25 June 2019.

In September 2019, the General meeting of the shareholders of Postbank approved the merger of the company with PBB. In November 2019, Postbank successfully completed the merger of Piraeus Bank Bulgaria, following the receipt of the relevant regulatory approvals, achieving another important step in consolidating its position as a systemic bank, expanding its client base and developing its team.

The fair values of the identifiable assets and liabilities as of the date of acquisition are presented in the table below:

	Carrying amount	Fair value adjustment	Fair Value
Cash and balances with the Central Bank	532,215	-	532,215
Loans and advances to banks	637,013	-	637,013
Loans and advances to customers	1,596,462	(171,583)	1,424,879
Gross Contractual amount	*1,678,545*		
Investment securities	64,098	(887)	63,211
Property, plant and equipment and intangible assets	38,592	(7,841)	30,751
Other assets*	8,850	341	9,191
Total assets	**2,877,230**	**(179,970)**	**2,697,260**
Due to Banks	289,961	-	289,961
Due to customers	2,157,571	-	2,157,571
Other liabilities **	50,556	(13,591)	36,965
Total liabilities	**2,498,088**	**(13,591)**	**2,484,497**
Total shareholders’ equity	379,142	(166,379)	212,763
Total shareholders’ equity and liabilities	**2,877,230**	**(179,970)**	**2,697,260**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

38. Acquisitions and mergers (continued)

Acquisition of Piraeus Bank Bulgaria A.D. by Eurobank Bulgaria A.D. (continued)

(*) Other assets include the investment in Piraeus Insurance Brokerage EOOD and other assets.
(**) Other liabilities include BGN 243 thousand additional litigation provisions.

Loans and advances to customers acquired were fair valued by an external valuator utilizing an Income Approach valuation model. The fair values are estimated by discounting future expected cash flows over the time period they are expected to be recovered, using appropriate risk-adjusted discount rates (Note 3.7).
The carrying amounts of cash, cash equivalents and loans and advances to banks, as well as due to banks and due to customers equal their fair value due to their liquidity, market level pricing and short term nature.
Investment securities acquired are measured and carried at fair value.
Properties fair values were determined by external valuator, using either the Income approach or Market comparison approach valuation technique.
The carrying amounts of tangible assets, other than properties, and intangible assets were assessed to be representative for their fair value using the depreciated replacement cost.
Carrying amounts of other assets were assessed for impairment. The impaired carrying amount is assumed to equal fair value.
For the other liabilities provision levels were reviewed, carrying amounts were equal to their fair value.
The table below presents how transaction bargain gain has been derived:

	2019
Total consideration paid/ payable	(150,956)
Fair value of identifiable net assets	212,763
Non-controlling interest	(32)
Deferred Tax Asset	16,915
Bargain Gain	**78,690**

The Bank incurred acquisition-related costs of BGN 2,188 thousand related to external legal fees and due diligence costs. These costs have been included in ‘administrative expenses’.

In relation to the integration of PBB acquired business, the Bank has also recognized integration costs broken down to BGN 18,353 thousand administrative costs (see Note 10) and BGN 13,495 thousand staff cost (see Note 11).

Details on proceeds from acquisition of subsidiary, net of cash acquired can be found below:

Cash consideration paid	(107,571)
Less: Balances acquired	
Cash and cash equivalents	1,169,228
Borrowed funds	(289,961)
Net inflow from cash – investing activities at acquisition	**771,696**
Cash movement from acquistion to merger date	2,750
Net inflow from cash – investing activities at merger date	**774,446**

The results of PBB were incorporated in the Bank’s financial statements prospectively, as of 1 November 2019. If the acquisition and the merger had occurred on 1 January 2019, PBB would have contributed net profit of BGN 13,992 thousand to the Bank for the period 1 January 2019 up to 31 October 2019.

39 Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as of 31 December 2020.