2021

ANNUAL FINANCIAL STATEMENTS

30 YEARS Postbank

EUROBANK BULGARIA AD

CONTENTS

2021

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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 49 to 176, which comprise the statement of financial position as at 31 December 2021 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 2021, 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 2021, the financial statements include:

- Gross loans and advances to customers of BGN 9,092,689 thousand (31 December 2020: BGN 8,063,843 thousand) and ECL allowance of BGN 298,738 thousand (31 December 2020 ECL allowance: BGN 264,968 thousand), as presented in note 18 to the financial statements.
- Impairment charge for credit losses recognized in the income statement of BGN 83,375 thousand (2020: BGN 82,719 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 2021;

— 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 2021 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 EOOD were appointed as statutory auditors of the financial statements of the Bank for the year ended 31 December 2021 by the general meeting of shareholders held on 30 September 2021 for a period of one year. The audit engagement was accepted by a Joint Audit Engagement Letter dated 8 November 2021.
- The audit of the financial statements of the Bank for the year ended 31 December 2021 represents a fourth total uninterrupted statutory audit engagement for that entity carried out by KPMG Audit OOD and a fourth total uninterrupted statutory audit engagement for that entity carried out by Baker Tilly Klitou and Partners EOOD.

- 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 2021 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 2021 in accordance with the accounting instructions of Eurobank SA Group to the components subject to consolidation;
  - 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 2020.
- For the period to which our statutory joint audit refers, Baker Tilly Klitou and Partners EOOD 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 2020.

For KPMG Audit OOD:

Ivan Andonov
Authorised representative

Sevdalina Dimova

Registered auditor, responsible for the audit

Sofia, 31 March 2022

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria

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София
Рег. № 045
КПМГ ОДИТ ООД

Baker Tilly Klitou and Partners EOOD

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

ANNUAL ACTIVITY REPORT

The management presents the annual Activity report as of 31 December 2021.

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 (ECB) as part of the close cooperation process between the ECB and the BNB.

BUSINESS OVERVIEW

Macroeconomic Environment

The COVID-19 pandemic continued to shape the social and economic environment in the past year. The start of the mass vaccination programs in the beginning of the year gave hope that the crisis will soon be over and that the economies will rebound strongly, swiftly returning to their pre-pandemic levels. While this was true for some countries, the renewed waves of infections in the second half of the year forced governments across the world to reintroduce containment measures, thus hampering the economic expansion. Although the developed and some less developed countries reached substantial rates of vaccination, this proved not enough to contain the new variants of the virus, prolonging the duration of the crisis into the next year.

The new waves of infections were not the only factor that slowed the pace of recovery. The persistent logistics constraints, the shortages of raw materials and labor as well as the resurgence of inflation, all exerted downward pressure on the economies. The fiscal and monetary stimulus in the developed countries led to increased consumption and demand for raw materials and goods which disrupted the fragile supply chain network and led to shortages and higher prices. In the same time, the labour markets in some countries have tightened and employers found it difficult to fill in empty positions, despite the fact that the labor force participation rates reached almost pre-pandemic level. All this was aggravated by the rising prices of energy which ultimately led to inflation levels unseen in the recent past. Thus the world economy enters the year 2022 in a weaker position than previously anticipated. Although it is expected to grow by 5.5% in 2021, the projections for the next two years are for a fast deceleration – to 4.1% and 3.2% respectively.

The main downside risks are renewed COVID infections, prolonged supply chain disruptions, higher inflation, including wages, earlier withdrawal of monetary accommodation and faster than expected increase of policy rates. The latter deserves special attention as in the past two years the debt levels across the world have risen further as governments have relied on various fiscal stimuli to support their economies throughout the crisis. Rising geopolitical tension and climate related disasters are also two important factors with unpredictable consequences.

The economies of the EU countries show a mixed picture. In many of the biggest countries, the GDP has still not reached its pre-pandemic level, especially in those that rely more on tourism and foreign trade. In the EU as a whole the GDP is expected to grow by 5.3% in 2021, but the next two years will see lower rates – 4.0% and 2.8% respectively, while for the Eurozone countries the rates are forecasted to be 4.0% and 2.7%. By the end of 2022, the real GDP in all EU countries will exceed the pre-pandemic level and in 2023 the growth will return to its normal long-term expansion level. It will be, however, a bit higher than previously expected due to the deployment of the Recovery and Resilience Facility whose effect will start to be felt from the second half of this year onwards.

The monetary policy remained supportive throughout the year, however, the rise of the inflation and the expectations that this is not a temporary phenomenon forced the central banks to consider returning to their original mandates – i.e. maintaining the price stability. Several central banks have already raised the policy rates last year and the Federal Reserve is expected to do so at its meeting in March with four more to follow throughout the year. There are even discussions whether the central banks should initiate quantitative tightening and start shrinking their swollen balance sheets. For the time being, the ECB intends to maintain its accommodative monetary policy. It announced that it will continue the net purchases under the Asset purchase programme (APP) until it begins to raise the key interest rates. In the same time, the net asset purchases under the Pandemic emergency purchase programme (PEPP) will be stopped at the end of March, but ECB will continue to reinvest the principal payments from the maturing securities at least until the end of 2024.

Bulgaria's economy fared relatively well in 2021. After contracting by 4.4% in 2020, it rebounded in 2021 by an estimated 4.2%. As most of the other EU countries it failed to reach its pre-pandemic level for which several factors played part – the resurgence of the COVID infections in the second half of the year, the low level of vaccination, the political instability, the delay of large public infrastructure projects and the rise of inflation. The main driver of growth was the consumption which rose by 7% YoY – the decrease of the unemployment rate, the rising salaries and the government handouts to the pensioners increased the disposable income of the households and most of it was spent. On the other hand, the investments were below expectations, declining by 1.1% YoY, as for the better part of the year the country was governed by a caretaker governments which withheld the capital expenses, thus keeping the budget at a surplus. The contribution of the external sector was negative – the export was up by 9.9%, while the import increased by 12.2%, compared with the previous year.

Bulgaria's foreign trade marked increased activity in 2021 reaching record levels. In nominal terms the exports rose by 24% YoY to 67.9 billion leva, while the value of the imports jumped by 27.5% to 76.7 billion leva. Bulgaria's trade with the EU members moved in parallel – both the imports and the exports rose by a little more than 26% YoY. On the other hand, the imports from third counties increased by 29%, while the exports were up by close to 20%. More than a quarter of the increase of imports is coming from machines and equipment which suggests that the Bulgarian companies continue to invest and upgrade their production capacity. However, the second biggest factor is negative and is related to the prices of oil and natural gas which saw hefty increases over the last year. The weaker Turkish lira benefited the Bulgarian importers – imports from the country was by 40% higher than in the previous year, while the country is by far the biggest trading partner outside the EU.

The foreign direct investments were €1.04bn, less than half their level a year ago. The debt instruments recorded a significant outflow of €461m in 2021, compared with an inflow of more than €1.18bn in the previous year. What is more, the equity investments were also negative (-€91m), while a year ago they were €350m. On the other side, the reinvested profit (€1.59bn) is more than twice the level a year ago (€740m) which is a positive sign about the overall economic situation in the country.

The biggest net inflow of investments came from Luxembourg (€455m), Germany (€285m) and Austria (€213m), while the biggest outflows were to Russia (€344m) and Switzerland (€144m).

Inflation has been on the rise since the beginning of the year. Measured through the consumer price index, it reached 7.8% at the end of December, a level not seen in the last 13 years. The main driving forces are the prices of liquid fuels, natural gas and food. Since December 2020 the prices of natural gas doubled, while the prices of liquid fuels rose by close to 40%. In the same time, the prices of food and beverages rose by 8.9% YoY and since they have the biggest weight in the consumer basket, their increase cannot be easily offset. The volatile prices of electricity have not been felt yet by the households, since they are still on the regulated market. However, the businesses are already trying to pass some of their higher production costs, including wages, to the consumers which will sustain the inflation in the medium term.

The unemployment rate declined by 0.7 pp to 4.6% at the end of 2021, according to the data by the National Statistical Institute. The number of unemployed was 147 thousand – a decrease of 26 thousand over the last year. The employment ratio in the age group 15-64 years worsened slightly to 68.5% (compared with 68.8% in December 2020). More concerning, however, is the fact that the workforce decreased by close to 73 thousand people in the last year because of the negative demographic trends. The decline in the age group of 15-44 years is more than 60 thousand people. The preliminary data from the Census conducted in 2021 is also discouraging, the number of people living in the country was 6.52 million which is 844 thousand fewer than in 2011 and around 300 thousand fewer than expected, where the most likely reason for the latter is the emigration.

The positive news is that the number of long-term unemployed (unemployed for more than 2 years) decreased by around 14.5 thousand people, while the ones with basic or no education have decreased by 12 thousand. Surprisingly, the region with the highest unemployment rate is no longer the Northwestern, but the North Central with 7.8% unemployment rate vs. 7.1% for the Northwestern. The Southwestern region (which includes Sofia) regained its first place and has an unemployment rate of just 3.1%, compared with 3.3% for the South Central region (which is around Plovdiv).

The tight labor market is forcing the employers to raise the salaries in order to attract and retain staff. On average the salaries in the country rose by 14.2% to 1,676 leva over the last year. In just a few sectors the increase is a single digit (mining, utilities and finance), while in others (hospitality & entertainment) it is around 50%. The public sector is paying an average salary of 1,872 leva (15% YoY) and is widening the gap vs. the private sector, which is paying 1,611 leva (13.9% YoY) on average. The ITC not only remains the highest paying sector, it is also one of the fastest growing. The average ITC salary rose by 15.3% to just over 4,000 leva. The Supply of Electricity and Gas is the second highest paying sector with 2,695 leva (10.9% YoY), followed by Finance and Insurance with 2,602 leva (8.5% YoY).

The interim governments were careful to preserve the fiscal stability and kept the budget on a surplus until November. In the last month of the year the newly elected government decided to maximize the fiscal stimulus that it was allowed as per the revised budget law and increased the spending on pensions and subsidies. Thus, the budget finished the year on a cash deficit of 3.9 billion leva (3% of the GDP), although some of the expenses were transferred to special interim accounts and will be used in 2022. Budget revenues were 52.3 billion leva, 8 billion leva higher than in 2020 of which 5 billion came from direct and indirect taxes. In the same time, the government spent 8.8 billion leva more on social expenses (4.1 billion), subsidies (2.8 billion) and salaries (1.9 billion). The better part of the increase of the social expenses (3.1 billion leva) went to the pensioners who received additional 50 leva per month from January to September and 120 leva from October to December.

The pensions were indexed at the end of the year, but the pensioners will still receive additional 60 leva per month for the first six months of 2022 in order to preserve their disposable income. The 2.8 billion leva increase of the subsidies covers the compensation to companies for the higher prices of electricity, various labor market supporting measures (such as 60/40 and 80/20), as well as additional subsidies for the health care system. The only saving came from the capital expenditures which decreased by 1.12 billion leva to 3.8 billion leva – the lowest level since 2017.

The state debt was up by 3.65 billion leva in 2021 to 32.5 billion leva (24.9% of the GDP). The government chose to finance itself exclusively from the local market and issued 3.8 billion leva throughout the year, most of which were acquired by the Bulgarian banks. While the yield of the first issuances was close to zero or negative, toward the end of the year it climbed to 0.5% for an eight-year notes, suggesting that the local market is saturating. This should be taken into account by the government which plans to issue another 7.3 billion leva in 2022 to finance the deficit and repay the maturing GMTNs.

In February 2021 the rating agency FITCH confirmed the credit rating in the country at BBB, but raised the perspective to positive. At the end of the year it reconfirmed the rating and the perspective. S&P confirmed the rating of the country in May 2021 at BBB with a stable perspective. The third big rating agency, Moody's did not make any updates within the year and the rating is Baa1.

Banking system

The results of the Bulgarian banks in 2021 are encouraging. Assets, loans and deposits are reaching new heights, income is rising and provisions and costs are under control. The combined net profit for the year was 1.4 billion leva, 74% (601 million leva) higher than in 2020, but still some 15% below the pre-crisis year 2018 and 2019. The return on equity was 8.5%, a significant improvement from the 5.3% in 2020, especially taking into account the fact that in the last two years the banks have not distributed any dividends which strengthened their capital buffers, but affected the profitability ratio.

After the slowdown in 2020, the lending rebounded strongly in 2021 with the retail segment being at the forefront. Total loans increased by 9.2% YoY to 75.9 billion leva. In nominal terms the net increase was 6.4 billion leva, the highest on record and double the result from a year ago. Loans to companies rose by 2.8 billion leva (6.4% YoY) to 46.4 billion leva. Most of the new loans are with maturity of more than 5 years, suggesting that the companies are confident in the near future and are willing to invest in long-term projects. In the same time, the loans to households increased by 3.6 billion leva (13.9% YoY) to 29.5 billion leva. The net increase is not only the highest in history, but also around 50% higher than the second best year. Both retail segments show record increases – the mortgage loans expanded by just over 2 billion leva (15% YoY) and the consumer ones by 1.4 billion (11% YoY) to 15.8 and 14.3 billion leva respectively. The increased lending, especially in the mortgage segment, is a consequence of the rising consumer confidence, the booming real estate market and the higher salaries.

The competition and the excess liquidity are pushing the rates of the new loan production to new lows. The average interest rates on new loans in leva to companies dropped from 2.8% at the end of 2020 to 2.4% a year later. Rates of the new mortgage loans fell by 20 bps to 2.62% at the end of the year, while consumer lending segment rates are much more volatile, but are still some 10 bps lower on average than in 2020.

The growth of deposits was also impressive – 8.7 billion leva for the year (8.6% YoY) to 109.4 billion leva, just short of the record delta in 2020 (8.8 billion leva). Deposits from financial and nonfinancial companies rose by 3.2 billion leva (8.5% YoY) to 41.2 billion leva,which is around 15% below the net increase in the previous year. The households, however, added 5.5 billion leva to their savings and reached a total of 68.1 billion leva, which is 9% more than in 2020 and the highest annual delta in history. The gross loans to deposits ratio remained flat at 69% which translates into more than 30 billion leva surplus liquidity for which the banks are paying interest charge. In 2021 the banks were charged 107.8 million leva in the form of negative interest rates, up from 70 million in 2020. Expectedly, the banks are trying to transfer some of this cost to the corporate customers by imposing a safekeeping fee on large deposit amounts and in 2021 this was expanded to include also deposits from individuals.

While banks' total income rose by 290 million leva (7% YoY) to 4.45 billion leva, only 40 million leva of it came from interest income. The competition and the low interest rate environment make it increasingly difficult for the banks to rely on interest income as a source of growth. Thus, even though total loans rose by 9.2% in 2021, the growth of the interest income on loans was just 3.9%. The banks managed to realize a slight incremental saving of 68 million leva on their interest expenses, however, just 33 million of it came from deposits from clients. Full year interest cost on client deposits was around 51 million leva so there is limited possibility for further savings. Therefore, the banks are increasingly relying on net fees and commission income, which grew by 202 million leva (19.5%) to 1.24 billion leva and accounts for 28% of the total banks' income.

The administrative expenses rose by 108 million leva (6.4%) to 1.78 billion leva which was predominantly influenced by the increase of salaries expenses (66 million). On the other hand, the fact that Bulgaria is now part of the banking union yielded significant savings for the banks – the contribution to resolution funds was virtually zero which saved some 145 million leva from these charges.

The higher profits of the banks were also supported by the decrease of 282 million leva in impairment charges on loans and securities, the cost of risk returned to the more normal 0.8%, compared with 1.3% a year earlier. This also reflected the improving quality of the lending portfolios. The nonperforming exposures ratio decreased by 1.7 pp to 6.5%, a new low point. Throughout the year the volume of the nonperforming exposures decreased by 740 million leva to just below 5 billion leva. A third of the decrease (245 million leva) was from loans overdue more than 180 days which are down to 2.78 billion leva. The coverage ratio has been steadily improving and already stands at 72% which is almost 10 pp above the level as of December 2020.

For a second consecutive year, the Central Bank adopted a decision requiring the banks to capitalize the full amount of banks' profit for 2020 which strengthened the CET 1 capital by more than 800 million leva. However, this was just enough to keep up with the growth of the lending so the capital adequacy decreased by 12 bps in 2021 to 22.62%. The CET 1 ratio as of the same date stood at 21.66%.

Major Changes in The Regulatory Environment

Ha On 16 September the BNB Governing Council adopted a decision to increase the countercyclical capital buffer rate, applicable to credit risk exposures in Bulgaria, to 1.0% in effect from 1 October 2022. On 16 December with another decision the Governing Council raised the level to 1.5% in effect from 1 January 2023. Although the value of the reference indicator corresponds to zero, BNB justified its decision stating that it has taken into account additional indicators which are focused on development in the credit market, indebtedness, real estate market as well as the general economic outlook. The loans to households and in particular the segment of loans for house purchase is of concern, therefore BNB takes proactive measures to build-up buffer capacity against cyclical risks.

On 1 January the EBA Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07) entered into force. The aim of the guidelines is to harmonise the definition of default across the EU prudential framework and improve consistency in the way EU banks apply regulatory requirement to their capital positions. A detailed clarification of the definition of default and its application is provided and key aspects are covered, such as the days past due criterion for default identification, indications of unlikeliness to pay, conditions for the return to non-defaulted status, treatment of the definition of default in external data, application of the default definition in a banking group and specific aspects related with retail exposures.

The EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06) were applicable from 30 June 2021. The Guidelines specify the internal governance arrangements for granting and monitoring of credit facilities throughout their lifecycle. They introduce requirements for borrowers' creditworthiness assessment and bring together the EBA's prudential and consumer protection objectives. The guidelines aim to ensure that institutions have robust and prudent standards for credit risk taking, management and monitoring, and that newly originated loans are of high credit quality. The Guidelines also aim to ensure that the institutions' practices are aligned with consumer protection rules and AML requirements

On 24 February 2022 BNB decided as of 1 April 2022 to discontinue the measure on the limit of banks' foreign exposures introduced as part of the package of measures addressing the crisis in 2020 and prolonged in 2021.

This will certainly have a positive effect on liquidity management in the whole banking system and our Bank in particular.

Eurobank Bulgaria performance and key indicators

Eurobank Bulgaria had a very successful 2021 year and managed to achieve the best performance in the history so far by increasing its income and net profit, gaining market share through organic growth, while maintaining its strong capital adequacy, risk and liquidity ratios. The profit after tax increased by 11% YoY to 169 million leva which is the highest level in history achieved through core business activities excluding one-off effects. The return on equity was 9.9%, the same as in the previous year and around 1 pp above the average for the market.

The lending portfolio expanded by 12.8% YoY (1.03 billion leva) to 9.09 billion leva, outpacing the market (9.2% YoY) and gaining 40 bps market share to 12.0%. More importantly, this was achieved without sacrificing the profitability – the average yield on the Bank's portfolio is around 40 bps above the market average and higher than the main peers. In line with the market trends, the retail segment outperformed the corporate one – corporate loans rose by 11.2% (428 million leva) to 4.26 billion, while retail loans were up by a little more than 600 million leva to 4.83 billion. For a second consecutive year, consumer loans were the fastest growing – by 21.3% (263 million leva) to just short of 1.5 billion leva. Mortgage loans were also in high demand because of the booming real estate market and rose by 13% (295 million leva) to 2.57 billion. After falling in 2020, the SBB segment fully recovered its lost volumes and finished the year with a portfolio of 760 million leva – the same as at the end of 2019. The recovery was helped by the programs which Eurobank Bulgaria signed in 2020 with EIF, the Bulgarian Development Bank and the Fund Manager of Financial Instruments in Bulgaria to support the small and medium sized businesses.

In terms of deposit gathering, the previous year was by far the best in the history of the Bank. Client deposits jumped by more than 2 billion leva (20.3% YoY) to 12.3 billion leva. The market share increased by more than 1 pp to 11.3% and Eurobank Bulgaria became the third biggest bank by deposits. In nominal terms, the deposit delta was more than double the one of the net loans which lowered the net loans to deposits ratio by 5 pp to 71% and strengthened the liquidity buffers. In contrast to the market, the corporate deposits rose much faster than the retail one – by 31% (789 million leva) and 17% (1.29 billion leva) respectively, which had a positive effect on the fee and commission income. Other borrowed funds rose by 137 million leva as Eurobank Bulgaria took 75 million euro at the end of the year in the form of eligible liabilities from Eurobank S.A.

Total operating income rose by 5% (25 million leva) to 495 million leva. The main income driver was the net fee and commission income which expanded by 20.5 million leva (20% YoY) to almost 124 million leva. Several factors contributed for the higher fees and commission income – the rebound of the credit and debit card business, the higher deposit base which brought more transactional and safekeeping fees and the higher sales of structured deposits and other treasury products. On the other hand, the intense price competition exercised a strong pressure on the net interest income which increased by just 1% (5 million leva) to 367 million leva.

Other operating expenses rose by 10% (18.7 million leva) to 207 million leva. Almost two-thirds of the increase (12 million leva) was spent on salaries in order to be able to attract and retain experienced staff. The surging inflation of goods and services and the additional spending on software and digital technologies accounted for much of the rest. Although the cost-to-income ratio rose by 1.8 pp in 2021 it remains at the respectable level of 41.8%, much lower than the average for the banking system.

The provisions for impairment (84 million leva in 2021) remained virtually flat, compared to the previous year, but because of the enlarged portfolio the cost of risk changed marginally from 1.1% in 2020 to 1% in 2021. The level is considered adequate in the current environment, being slightly higher than the average for the banking system, and helped the Bank to reduce significantly the stock of the nonperforming exposures. Despite the introduction of the new definition of default in the beginning of the year and the expiration of the moratorium for most of the loans before its end, the volume of the non-performing exposures shrank by almost 93 million leva to 443 million leva. This was achieved through a variety of measures such as active collection efforts, write offs, debt sales and curing of loans. Thus, the nonperforming exposures ratio at the end of the year was 4.9%, just below the very important 5% threshold. Despite the fact that some 48 million leva were written off in 2021, the coverage ratio jumped by close to 20 pp to 67%, an all-time high.

By capitalizing the profit for the previous year, Eurobank Bulgaria was able to cover the expanding risk-weighted assets through internal capital generation. The capital adequacy ratio at the end of the year stood at 20.58%, just 33 bps lower than in the previous year and well above the regulatory requirements. In preparation for the interim MREL target which is be applicable from 1 January 2022, Eurobank Bulgaria took 75 million euro loan from Eurobank S.A. which is be recognized as eligible liabilities and allows the bank to comfortably comply with this requirement too.

Events after the balance sheet date

On 24 February 2022, Russian president Vladimir Putin announced that Russia is initiating a „special military operation“ in the Donbas and launched a full-scale invasion into Ukraine. Current geopolitical situation is preceded by several key events dated back to 2014. In December 2021, Russia advanced two draft treaties that contained requests for what it referred to as „security guarantees“, including a legally binding promise that Ukraine would not join the North Atlantic Treaty Organization (NATO) as well as a reduction in NATO troops and materiel stationed in Eastern Europe, and threatened unspecified military response if those demands were not met in full. NATO has rejected these requests, and the United States warned Russia of „swift and severe“ economic sanctions should it further invade Ukraine. On 21 February 2022, Russia officially recognized the two breakaway regions in eastern Ukraine, the Donetsk People‘s Republic and the Luhansk People‘s Republic, as independent states and deployed troops to Donbas, in a move interpreted as Russia‘s effective withdrawal from the Minsk Protocol. On 22 February, Putin said that the Minsk agreements were no longer valid and on the same day, the Federation Council unanimously authorised the use of military force in the territories.

In response, United States, the European Union (EU) and other countries and international organizations started to roll out sanctions against Russia, Russian individuals, businesses and officials from Russia and Ukraine. Russia responded with sanctions against a number of countries, including a total ban on food imports from Australia, Canada, Japan, the United States and EU. The sanctions contributed to the collapse of the Russian ruble and let to a the financial crisis in Russia.

As the situation with the conflict and related sanctions is very dynamic with far-reaching and long-term consequences, any assessment of potential impact would be premature. Currently the Bank has no direct or indirect exposure to Russia or Ukraine, yet potential spillover effects would be closely monitored. The Bank has robust internal control system which encompasses EXCO, ALCO, Operational Risk Committee, Special Handling Monitoring Committee, MB, SB, Risk Committee as well as Compliance & AML Divisions.

The Bank regularly monitors and updates sanctions lists, analyses the impact on its business activity and is ready to take appropriate measures to ensure compliance. Therefore, management considers the going concern assumption adopted in the preparation of these financial statements as appropriate.

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 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.

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:

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 an ongoing basis.

c) Equity price risk

Equity price risk is the risk of decrease of the fair values of equities 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.

d) 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.

IMPORTANT EVENTS DURING THE FINANCIAL YEAR

Postbank, legally known as Eurobank Bulgaria AD, is the fourth biggest bank in Bulgaria in terms of assets. It has an extensive branch network throughout the country and significant customer base comprising individuals, companies and institutions. It is a leading player in digital innovations and a trend setter in the banking sector in the country during the recent years, with multiple awards for its innovations. The financial institution holds a strategic place in retail and corporate banking in Bulgaria. The Bank is one of the leaders at the credit and debit cards market, residential and consumer lending, savings products, as well as corporate client products – from small businesses to big international companies operating in the country. The financial institution has one of the best developed branch networks and modern alternative banking channels, with special focus on high quality services to the customers.

2021 is a special year for the Bank, because it marked its 30th anniversary on the Bulgarian market. During this period Postbank operated with great care for the people, community and nature, combining the best aspects of traditional and digital banking. The Bank is one of the most active and committed legal entities in Bulgaria, a statement backed by many successful projects which it implements every year together with its employees. In May 2021, on the occasion of its 30th anniversary, the Bank launched its largest scale, innovative and completely online-based corporate social responsibility initiative „A Universe of Opportunities", supporting social entrepreneurship in the country. The final stage of the competition was reached by 30 projects out of 238 applicants, which have potential in the key areas Digital Innovations, Education and Green Projects and a reputable jury chose the final three winners – one for every key area. This long-standing initiative is another contribution of our financial institution to the positive change in our society.

Postbank continued its transition towards innovative operation. Its strategy envisages good customer servicing, modern products and services, implementation of new solutions in the back-office processes and convenient ways for internal communication. The efforts of the team were recognised once again as Postbank was awarded for a second consecutive year with two prestigious international awards in the World Finance Digital Banking Awards 2021 competition of the highly respected World Finance magazine - the Best Consumer Digital Banks, Bulgaria and Best Mobile Banking Apps, Bulgaria categories for users in Bulgaria. The Bank was also awarded with the special prize in the Innovations category in the prestigious Mr. and Mrs. Economy competition, organised by the Confederation of Employers and Industrialists in Bulgaria (CEIB) and Economy magazine.

In July 2021, Mrs. Petia Dimitrova, Chief Executive Officer and Chairperson of the Management Board of Postbank, received Postbank's prestigious award in the Efficiency category of the Annual Bank Awards of Bank of the Year Association. Our bank was one of the four banks awarded in the prestigious competition where the assessment criteria are based on the indicators and results reported in the audited financial statements of the 25 banks and branches of foreign banks in our country. Shortly afterwards, Mr. Dimitar Shumarov, Executive Director, Chief Financial Officer and Member of the Management Board of Postbank was awarded with the prestigious Banker of the Year prize for consistent and long-lasting dynamic in the Bank's development and for the Bank's social engagement.

In July 2021 the Bulgarian Credit Rating Agency (BCRA) raised Postbank's long-term rating from BBB- to BBB, with retained short-term rating A-3 and changed the outlook to stable. It also raised the long-term national scale rating from A+ (BG) to AA- (BG) and raised its short-term national scale rating from A-1 (BG) to A-1+ (BG), thus assessing highly the Bank's stable position in the country.

Postbank also received the Deal of the Year prize in the 7th Annual Company of the Year Awards, organised by the Bulgaria Business Review Group magazine. The prizes acknowledge the best companies in various industries, giving visibility to their achievements and focusing the public attention towards their innovative and successful governance models. The recognition came shortly before Postbank won two prizes in the seventh issue of the competition of b2b Media Annual Awards 2021 in the Mobile Innovation category for the Digital Office application, which the Bank added to its portfolio of digital solutions for fast and easy internal communication with its employees, as well as the award in the category Sustainable Development Investment / Green Initiative for its multi-layered policy of CSR, which includes a number of important projects in the area of education, environmental protection, sports and corporate charity. Postbank's communication team also won first prize for the Digital Office mobile application in the prestigious BAPRA Bright Awards 2021 competition. The Bank stands boldly on the verge of its 30th anniversary as one of the leaders in the sector, ready to look for the best solutions for its customers, employees and partners.

As a top employer, measuring its success through the satisfaction of its employees, Postbank has always strived to develop the skills of its team and ensure an environment facilitating the unwinding of their potential, which brought Best Employer of the Year award for the Bank in February 2021. Another prestigious recognition for Bank's efforts in successful implementation of multiple projects and an employer branding strategy with a perspective for successful talent attraction, management and retention, was the golden prize in the Employer of the Year category of the Annual Employer Branding Awards, organised by b2b Media. Bank's wide range of activities aimed at work environment development, continuing professional development and training, engagement of the employees in corporate social responsibility projects with high added value to the society won the first place in the Employer Branding Innovation (in Pandemic Times) category in the same competition.

The Bank is also among the most preferred employers at various career-related events in the country. Its employees participate in different forums and conferences, amongst which are the innovative podcast Finance in the Focus, Money Talks and the prestigious Finance Forum Innovations of Bank of the Year Association. Postbank also launched a large-scale education project with Sofia University and it is the only bank involved in the faculty's curriculum with two separate modules entirely developed and created based on its proposal. The modern Bank Management and Investment Banking subjects are an integral part of the 2021-2022 compulsory curriculum and the lectures are conducted by more than 20 of the Bank's experts.

In 2021 Postbank became the first certified bank in Bulgaria, which offers its clients the modern instant payments service in Bulgarian leva under the Blink Programme of the National Card and Payment Scheme (NCPS), part of BORIKA AD. It gives the Bank's customers the opportunity to make Bulgarian lev transfers from account to account (P2P/P2B) for amounts of up to BGN 30 000 in just 10 seconds, within the vast branch network of the Bank, in accordance with the implemented Pan-European Instant Payment Scheme SEPA of the European Payments Council.

In September 2021, Postbank was also the first bank in Bulgaria offering a contactless payments mobile application, transforming a smart phone into a POS terminal. The innovative service Smart POS by Postbank which the financial institution added to its diverse portfolio of digital products focuses on the development of the entrepreneur ecosystem and it is the Bank's response to the changing needs of the consumers.

In October 2021, Postbank and Doverie Pension-Assurance Company, member of Vienna Insurance Group – one of the leading international insurers, signed a large-scale strategic partnership agreement, which will ensure their clients access to some of the most innovative bank and pension insurance solutions in the market. With this agreement, the Bank expanded its diverse portfolio in order to ensure complex and meaningful servicing of its customers, by offering individual financial solutions customised to reflect their specific needs and expectations.

By setting customer interests as a top priority Postbank continued to offer various support measures to its clients – individuals and legal entities with difficulties in servicing their loans due to COVID-19 pandemic. In June 2021, the Bank joined the new Recovery programme to support the business through guarantees from the Fund Manager of Financial instruments. The objective of the programme is to facilitate the access of business to loans for recovery of their operations after the gradual revocation of the measures related to the COVID-19 pandemic. Companies will be able to receive funds to cover their current liquidity needs, but also for new investment, transformation and growth. Furthermore, in December 2021, Postbank signed two new guarantee agreements with the European Investment Fund (EIF). They are under the European Guarantee Fund programme for guaranteeing a portfolio of loans amounting up to EUR 650 mln. The Bank's involvement in the programme will allow it to provide easy access to financing to the business at preferential terms and conditions, thus supporting the liquidity needs and projects of small and medium-sized entities in the current challenging economic environment.

Postbank once again won a spot among the best banks in the world, and for the fourth consecutive year was awarded Best Retail Bank in Bulgaria in the World Finance Banking Awards, organized by the prestigious World Finance magazine. The magazine monitors and analyses the financial industry, international business and economy. The recognition comes for Postbank's innovative, sustainable and customer-oriented retail banking approach, the vast portfolio of value adding products and innovations, the extensive branch network and the high level of customer trust.

In 2021 for the seventh time, the European Bank for Reconstruction and Development (EBRD) awarded the high prize Most Active Issuing Bank in Bulgaria in 2020 to Postbank. The prize was presented during the 30th official jubilee meeting which was conducted in an online format hosted in London.

Postbank has taken yet another step towards expanding its innovative services offered to its clients by presenting the new generation Momento express banking centre. This unique for the market service which was implemented in line with the newest global trends in financing ensures convenience and speed to the users and guarantees exceptional customer experience. The modern solution for a new kind of banking builds upon two of the successful concepts of the financial institution by uniting the Momento express consumer lending centres and the digital express banking zones.

Postbank continued developing its digital express banking zones to provide speed of service and convenience to its customers. The new service is now available in 75 offices of the Bank in 32 cities throughout the country where specialized devices with a modern design, intuitive navigation and multiple functionalities are located. The new digital express banking zones give customers the opportunity to carry out almost all transactions available in the Bank's branch and to bank conveniently at times outside the working hours. The service is unique on the Bulgarian market and it offers speed, convenience and cuts the costs for the customers thanks to the wide range of transactions charging up to 65% lower fees compared to the fees in the bank branch.

As of January 2021, more than 120 ATMs and self-service devices in the digital express banking zones of Postbank throughout the country offer a new contactless functionality, which allows the customer to execute transactions by placing the card close to the device's contactless reader.

Through its partnership with Eurobank Private Bank Luxembourg and its 100% specialised and highly personalised private banking services, Postbank continued developing its modern Private Banking centre. The Bank's customers can take advantage of a set of investment trust services, asset management and business consultation.

In February 2021, Postbank opened its unique Premium Banking centres. In fulfilment of the long-term strategy of the financial institution for overall renovation of its branch network and with the special attitude of the Premium Banking segment customers, the specialised centres ensure comfort and confidentiality, in combination with outstanding service standards.

Another innovative service of the Bank, which aims to provide convenience and to save time of our clients is Postbank's mobile service for servicing our customers on their demand in a designated area in business centres and malls with free-of-charge expert advice on various financial products and current offers. The customers receive personalized and flexible solution for their needs and a support in filling-in the relevant application documents for specific bank's products and services.

Postbank also offers its modern and convenient service Bankers to Rely on. The service is a free-of-charge professional consultation on the specific needs of our clients, an assistance in filling-in the application documents and in submitting them to a branch of the Bank.

Postbank reports noticeable progress in its business activities related to the application of the Principles for Responsible Banking (PRB) within the United Nation's Environment Programme Finance Initiative (UNEP FI). The progress on the various aspects is presented in the institution's report, drawn up in 2021, reflecting all current practices, objectives and key performance indicators, which it has undertaken and implemented to achieve overall wellbeing and in unison with its sustainable development in the financial sector. Postbank became a signatory of the Principles for Responsible Banking in back in 2020. This important step made Postbank the only financial institution in Bulgaria which chose to comply in all aspects of its operations with the single framework for sustainable development in the banking sector, developed through the innovative partnership between leading banking institutions globally and the Finance Initiative to the Programme. Furthermore, Postbank confidently follows the ESG (Environmental, Social and Governance) principles and believes that this is the way to contribute to social sustainability and environmental protection.

In 2021 the Bank, a traditionally preferred partner of the businesses in our country, supported for a third year in a row the unique growth programme Dare to Scale. It is the first of its kind in Bulgaria, oriented to businesses having potential for larger scale expansion of their operations. Due to the huge interest this year, 10 local companies were chosen in the project of the Bulgarian office of the Global Endeavor Network. The selected entrepreneurs underwent training and interactive sessions led by successful practitioners and leaders from the Endeavor network and with the participation of Postbank experts. The Dare to Scale growth programme will continue in the future in order to encourage the growth of even more new local businesses.

In 2021, the financial institution was a key partner in series of business discussions in Sofia, Plovdiv, Stara Zagora, Varna, Russe, Bourgas, Veliko Tarnovo and others, as part of the Annual Awards of Imoti.net project, which is held for the sixth consecutive year. The project promotes the good practices in the sector. This is the only forum assessing the achievements, fairness and good reputation of companies and experts in the real estate sector. During the meetings with representatives of the real estate business, the Bank's experts discussed the trends for the development of the sector and as theleader in lending they presented their analysis of the market, consumer profile and most current residential loans terms and conditions offered by Postbank during this challenging year.

For the seventh consecutive year, Postbank was the main partner to The Big Small competition organised by 24 Hours newspaper, recognizing the best small business of the year. Every year, small and innovative Bulgarian companies present the ideas they developed successfully in a product or service on the market.

NEW PRODUCTS

The Bank traditionally strives to launch innovative products and services with focus on customer satisfaction. The COVID-19 pandemic further challenged companies to act faster in implementing solutions creating convenience for the customers to continue being successful. Postbank embraced current macroenvironment developments and demonstrated its full potential to support its clients by offering added value products and services through digital, remote or an alternative custom channel of convenience for customers.

In February 2021, on the eve of its 30th anniversary, Postbank was the first bank in Bulgaria to launch a new generation credit card on the market - the metal credit card Mastercard UNIVERSE. The new high end card was created to meet the highest customer requirements and expectations. It has a stylish design and along with all advantages of credit cards as a product it brings about many privileges and additional conveniences to its holders.

ONE wallet by Postbank is the newest service in the vast portfolio of digital solutions that Postbank develops for its customers. The latest generation mobile portfolio is a high-tech application that follows the strategic framework for development of the ecosystem of digital banking channels of the financial institution. Through this channel, the customers practically have immediate, contactless access to major bank services, because they transfer their physical wallet to their mobile phones. They can add all of their Postbank cards to their new wallet and manage them freely and effectively due to the huge set of functionalities which are embedded in the application. These also include contactless payment at a POS terminal using the phone, card management in the mobile wallet, possibilities to add loyalty cards issued by different traders, and many others.

Postbank offers an innovative service for entirely remote underwriting of insurance. The new solution allows existing customers to contract in just a few hours selected insurance products from the diverse portfolio of the Bank quickly, easily, free-of-charge and entirely online – using their smart device. The financial institution offers its existing customers the newest insurance products Income Protection and Calm Day entirely online. They offer highly sought and innovative coverage, including unemployment, care for a sick relative and more. At the end of the year, the financial institution also offered an investment insurance product, designed specifically for the Bank's Premium customers, which simultaneously provides insurance protection and the opportunity to generate a return on investment, a good alternative to solo savings or insurance products.

In November, Postbank became the first certified bank in Bulgaria offering its clients the modern instant payments service in Bulgarian leva under the Blink Programme of the National Card and Payment

Scheme (NCPS), part of BORIKA AD. The new Blink instant payments service is available as a pilot in the extensive branch network of Postbank throughout the country, and in 2022 the financial institution plans to offer the service through its digital channels.

In September 2021, Postbank was among the first Bulgarian banks to offer contactless payments mobile application turning a smart phone into a POS terminal creating value for both the merchants and the end customers. This is an easy and efficient payment solution both for micro and small traders, and for big companies managing their business on the go, such as taxi and courier companies, delivery and fast food companies, transport companies, beauty saloons, etc.

Smart POS by Postbank will allow many small businesses which currently do not meet the requirements for installing a POS terminal to accept contactless payments in their shops or on the go at any location. For industries using mobile POS devices, the transition to the software POS is much more advantageous and an easy-to-maintain solution.

The Bank continues to offer its customers an end-to-end remote process of issuance of credit and debit cards allowing its customers to apply for their cards online and to receive them at an address of their choice, so the entire procedure is carried out without the need to visit a bank office.

Postbank constantly develops its portfolio of deposit products. In 2021 Postbank launched few more innovative deposit products – Index Duo Gold, Index Climate Change and Index Artificial Intelligence, oriented to clients looking for additional solutions for their savings. The newest deposit solutions of the Bank are offered in Euro and USD, with guaranteed principal and a yield linked to the performance of the Solactive Climate Change Europe BTI PR Index. These deposit products are a good alternative with yield-generating option in comparison with the existing standard term deposits.

The one-year-interest-free overdraft consumer loan combines two of the most preferred products and gains momentum as a top offering in the portfolio of Postbank in 2021 as well. The loan may be used both to cover current needs and to unite liabilities. The video advertisement for this product revives the amazing story of Maxim and Stefan Ivanov. They crossed the Atlantic Ocean in the summer of 2020 during the peak of the global pandemic and the worst hurricane season in the Atlantic, after 105 days sailing in the ocean rowing the Neverest boat they built. With this ad, the Bank wants to inspire more people to follow their dreams. With its product, combining consumer loan with interest free overdraft for an entire year, the Bank offers the users the financial freedom they need to implement large and small personal projects.

Postbank linked the green idea of its primary consumer lending with the growing desire of consumers for more environmentally friendly transportation and provides to its customers an opportunity for easy transition to the new future. ECO Autocredit is the newest product oriented entirely towards financing electric, environmentally friendly vehicles.

Postbank continued offering targeted consumer loans for business training throughout the world. This product is unique for the Bulgarian market. It can be used to finance the fees for different programmes such as Master of Business Administration, Executive Master of Business Administration, Advanced

Management, etc. The product was developed to meet the increased interest noticed by the Bank during the past few years for financing education that opens the path to career growth and development.

In response to the increasing consumer interest for digital bank services, Postbank continues providing convenient options for online consultation for residential loans through the EVA Postbank mobile application. The innovative service facilitates the access to information for residential lending features and the loan application process. The addition of new functionalities to the mobile application is part of Postbank's strategy for overall digitalisation of the processes and its effort to communicate with the clients in a way that is most convenient for them.

Postbank's clients can also take advantage of the convenience offered by the Online Mortgage Lending Centre, which introduces a new model for fast and convenient customer service. The new digital solution in residential financing is a continuation to the services offered by the Bank in its specialised Mortgage Lending Centres. The Bank builds its online mortgage loan application service to transfer the process in a digital setting and meet consumer expectations for remote consultation and communication with the Bank in the process of granting the loan.

Postbank continues to offer its customers the Super Mortgage Loan – the first mortgage loan with a fixed interest over the entire term of the loan. The product provides customers planning to purchase a property long-term certainty and predictability in the future.

The maximum amounts to EUR 250 000 and the funds may be used to purchase, repair, build a residential property or for finishing works on a residential property, as well as to refinance an existing residential loan.

The financial institution continues to offer the Savings Residential Loan which gives the customers the opportunity to pay interest only on half of the loan. This results either in smaller monthly instalments, or faster repayment of the loan. In October, the financial institution started for a fifth consecutive year its special initiative – Residential Lending Month. The clients have the opportunity to take advantage of excellent financing terms and conditions, saving up to BGN 1 200 of the initial loan-related costs. Its start is in line with the consumers' behaviour and the traditionally increased demand for mortgage loans during the last quarter of the year.

Postbank offers more spare time and a lot of possibilities with the Golden Time pension transfer programme. It is specially developed for pensioners, including bank products, which meet their needs to a maximum. Another option is the Golden Rent deposit, which offers a fixed interest rate and the possibility to receive the interest every month

SUSTAINABLE DEVELOPMENT

In addition to its primary business, Postbank continues with its focus on the needs of the local communities by supporting programmes and initiatives with reputable institutions and organisations. The Bank is trying to educate its employees, as well as the consumers and the society to have responsible attitude towards our environment. The Bank's aim is not only to create competitive advantages by adding more and more value to the products offered, but also to reduce its adverse impact on the environment.

In 2021, the Bank implemented many socially important projects in the area of entrepreneurship, education, environmental protection, sports and corporate charity. Postbank is an active member and works in support of initiatives of the CEIB, AmCham, HBCB, Association of Banks in Bulgaria, BORIKA AD, Endeavor Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Charity Forum Association, Atanas Burov Foundation, the Bulgarian Network of the UN Global Compact, the Bulgarian Association of Advertisers, Bulgarian Public Relations Association and the Bulgarian Fintech Association.

On the occasion of its 30th anniversary, Postbank is focusing on supporting social entrepreneurship. The winners in the innovative digital platform A Universe of Opportunities received their awards on 14 September during a special event at the University Botanic Garden in Sofia. This platform was developed to promote interesting ideas related to social entrepreneurship to the benefit of the public. 30 out of 238 projects with potential in the key areas Digital Innovations, Education and Green Projects reached the final stage of the competition, and at the beginning of September three winners – one in each field – were selected after the decisive vote of the renowned jury.

Postbank and Visa implemented a joint socially responsible campaign in support of the Bulgarian health workers and their efforts in fighting COVID-19. BGN 125,000 were provided to University Hospital for Active Treatment Sofiamed. The funds will be used to purchase respiratory devices of the highest quality for active reanimation, oxygen concentrators and apparatus for high-flow nasal cannula oxygen therapy with permanent positive pressure. Every cardholder, client of the Bank, had the opportunity to participate automatically in the initiative, using their Visa debit or credit card issued by Postbank before 16 April 2021 and to make at least one purchase with the card for a minimum of BGN 30 at a shop or online store during the period of the campaign. For every qualifying payment, Postbank donated BGN 1 in support of the medics who have been on the front lines in the fight against COVID-19 for more than a year.

The education of children and young people in Bulgaria has always been part of the corporate social responsibility projects developed and supported by Postbank.

This is why the Bank continued developing its joint project with SoftUni in support of the Bulgarian education, a project that started back in 2018. It involves various activities aimed at preparing young people for the professions of the future and for professional career in Bulgaria.

Through the strategic partnership, the two organisations aim to encourage students to reach their potential as IT and digital leaders prepared for the dynamically changing environment and the new trends in banking. A new generation digital application, which is intended to facilitate the communication between the employees, won the big prize in the Programming category of Postbank during the third issue of SoftUni Fest.

IT specialists from Postbank once again took part in the online career seminar IT Journey. They presented the attractive employment and career development possibilities in the company to the young students from the Software University. As a leader in the Bulgarian market, Postbank has a diverse and vast infrastructure, based on dynamically developing high tech services and solutions, providing outstanding possibilities for specialisation and development in different technology branches. The Bank is amongst the top preferred employers for the young software specialists who are at the beginning of their professional path.

For the sixth consecutive year, Postbank participated in the most distinguished initiative of the Bulgarian Network of the UN Global Compact I am Proud of My Parents' Work. This time the meeting with the employees' children was completely virtual. Although from a distance, the children had the opportunity to get to know the professions of their parents, to understand exactly what the people in the bank do and why their work is so important. Thanks to the Bank's specialists, they understood that there is a place in Postbank for people with many different interests and skills.

In 2021, for yet another year, the financial institution supported the National Trade and Banking High School in Sofia by committing to become a mentor of one of the school banks.

In April 2021, Postbank started its strategic partnership with the Finance Academy in an educational project aimed to ensure valuable practice-oriented knowledge to raise financial literacy in our country. The two organisations firmly believe that improving the financial culture will also lead to the development of the entrepreneurship ecosystem. This is why their joint activities are focused on sharing current knowledge directly related to the actual business environment.

Postbank and Sofia University cooperate in the field of the education of future financial experts in the Finance and Banking Master's degree programme of the Faculty of Economics and Business Administration. The modern subjects Bank Management and Investment Banking are an integral part of the 2021-2022 compulsory curriculum and lectures in these subjects are conducted by experts from the Bank.

As part of its traditional internship programme, for another year in a row, Postbank gave talented students and motivated young people the opportunity to prove their qualities and start their career in one of the biggest and innovations-leading Bank with a 30-year history on the market. The internship programme is part of the corporate social responsibility policy of Postbank in support of the youth for 14 years now.

For the sixth year in a row, as member of the Association of Banks in Bulgaria (ABB), Postbank participated actively in the European campaign aimed at fighting money laundering schemes and recruitment of financial mules.

In June 2021, Postbank was once again a key partner in the charity relay run Postbank Business Run, annually organised by Runner club. 240 teams from 87 companies from different sectors participated. They competed in support of two causes. The biggest teambuilding in Bulgaria was realised in support of two causes. The funds raised exceeded BGN 10 000 and they will be donated to the Children's House project of the For Our Children Foundation in order to secure temporary shelter and a chance for the families of the youngest ones, as well as Water Way Foundation to support children with special needs through physiotherapy, water rehabilitation and modified swimming, so they can grow up as independent adults having a chance at a meaningful life.

Postbank is the only bank in Bulgaria that has a Green Board and an Environmental Office Unit as part of its organisational structure. They work towards environmental protection both with respect to limiting the resources used by the Bank, and with respect to the Bank's financing activities. Furthermore, the members of the Board organise various outdoor initiatives to mobilise other employees.

In 2021, Postbank and Mastercard developed a joint project for reconstruction and expansion of the park infrastructure along the tourist route Bear Museum – Dendrarium Area in Natural Park Vitosha. During the first phase of the project, volunteers from the two companies joined their efforts and together with the Directorate of Natural Park Vitosha they created the Green Classroom, which is situated in immediate proximity to the Bear Museum. The construction of an open amphitheatre study and celebrations spot will shape a creative space, which will give an opportunity for an innovative learning approach, as well as fun for different children's groups that visit the mountain regularly. The second stage of the project in 2022 will include the construction of a connecting path between the Green Classroom and the Dendrarium area, so that tourists could move safely in the forest between the two places without having to take the main road.

In 2021, in partnership with Bloomberg TV, Postbank launched the third issue of the innovative information format – the Finance in Focus podcast. The podcast is issued in seven episodes in which the Bank's experts acquaint the audience with the contemporary solutions in banking, the innovative bank products and services and the various possibilities in the sector provided to us by modern technologies.

Postbank's employees are also regular donors to the National Transfusion Haematology Centre and they participate in blood donation campaigns organised and carried out in the Head Office.

With the support of Postbank, the Specialised Hospital in Obstetrics and Gynaecology Maychin Dom celebrated 1 June with an exhibition of Sandro Arabyan.

The financial institution supported the third issue of the festival A Road Less Travelled: Chamber Music in Kovachevitsa.

The 16th Global Meeting of Bulgarian Media was held under this motto Media and Truth on 17 and 18 October 2021. This event is traditionally organised by the Bulgarian News Agency (BNA). Postbank is a partner of the prestigious forum which unites the representatives of the Bulgarian media abroad.

During the year, the Bank also continued its long-term support and work with the socially disadvantaged groups and incentivising their active role in society. Support was provided to disadvantaged children in Kazanlak, elderly people in Rousse, the national campaign Easter for Everybody – Donate a Holiday to a Grandmother and Grandfather, as well as many smaller initiatives throughout the year.

Postbank traditionally participates in the holiday decoration of Sofia. Following its widely shared values, the financial institution believes that the overall wellbeing and development of society depends on the efforts to improve the environment of each one of us. Therefore, along with the other socially-oriented projects, for several years now the Bank cares for the holiday sparkle in the capital during the Christmas and New Year holidays.

AWARDS:

- Two international awards for Postbank in the prestigious World Finance Digital Banking Awards 2021 competition of the highly renowned World Finance Magazine.
- Postbank once again won a spot among the best banks in the world and for a fourth year in a row it was named Best Retail Bank in Bulgaria in the World Finance Banking Awards competition. The prestigious World Finance magazine which monitors and analyses the financial industry, international business and economy organises the awards.
- The recognition comes due to the many innovations, excellent results and sustainable work model in retail banking, combined with modern products and services to the benefit of the consumers.
- Dimitar Shumarov, Chief Financial Officer and Executive Director of Postbank, and Member of the Management Board was awarded Banker of the Year prize. The prize was presented for the consistent dynamic in the development of the Bank and for its social engagement.
- Prize in the Efficiency category at the Annual Bank Awards of Bank of the Year Association.
- Postbank was named Best Employer of the Year after it won the gold in the Employer of the Year category in the fourth issue of the Employer Branding Awards 2021.
- The Bank won first place in the Employer Branding Innovation (in Pandemic Times) category during the fourth issue of the Employer Branding Awards 2021.

- Silver EFFIE in the Services category for the campaign of Now programme.
- Award in the Innovation category in the prestigious Mr. and Mrs. Economy, organised by the Confederation of Employers and Industrialists in Bulgaria (CEIB) and Economic magazine.
- Postbank won an award in the Talent Management Strategy category at the prestigious best employer awards Career Show Awards 2021.
- For the seventh time, Postbank was presented with an award from the European Bank for Reconstruction and Development (EBRD) – the award for Most Active Issuing Bank in Bulgaria in 2020.
- Bank of the Year award in the seventh annual Company of the Year awards.
- Postbank won first prize in the special category Internal Communications Department of the Year in the PR Prize 2021 competition. The award was presented for the many important projects implemented by the Bank in the fields of education, environmental protection, sports and corporate charity.
- An award in the Communications of Eco Projects category in the PR Prize 2021 competition for the Green Outdoor Stories project, with which an eco-trail in Natural Park Vitosha was completely renovated during two consecutive years.
- Prize in the Communications Project for a Product or Service category for We are All Connected at the PR Prize 2021, a consumer loan campaign with an overdraft, which is strategically important in the development of the Bank's consumer loans portfolio.
- Gold in the Innovations and Sustainable Development category at the Heart of Gold annual awards for charity work and corporate social responsibility.
- First place in the national competition The Greenest Companies in Bulgaria in the Green CSR Campaign category.
- Postbank won two awards at the prestigious PR and communications competition BAPRA Bright Awards 2021 – in the Campaign Implemented by and Internal PR Department and Corporate Communications (reputation and brand management) categories.

SHARE CAPITAL STRUCTURE

As of 31 December, 2021 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, 2021 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

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**

  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;

  Hellenic Business Council in Bulgaria – Deputy Chairperson

- **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;

  Sports Club DFS-Lokomotiv Sofia, Bulgaria – Member of the Board of Directors

- **Panagiotis Mavridis**

  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 2021.

SUPERVISORY BOARD

As at 31 December 2021, 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.

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**

  „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;

- **Theodoros Karakasis**

  Greek-Serbian Chamber of Commerce – Deputy Chairman and member of the Board of Directors.

- **Stavros Ioannou**

  Eurobank Ergasias Services and Holdings S.A, 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;

  BE – Business Exchanges S.A, of Business Exchanges Networks and Accounting and Tax Services, Greece – Chairman and member of the Board of Directors;

  Eurobank Direktna 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 Direktna a.d. Beograd, Serbia – Chairman and member of the Board of Directors;

  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

- **John David Butts**

  Lexrx Capital OOD, Bulgaria – Managing Director;

- **Oliver Ellingham**

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

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 2021.

In 2021 the members of the Management and Supervisory boards have received remuneration amounting to BGN 3,395 thousand.

BANK STRUCTURE

Eurobank Bulgaria AD has no subsidiaries as of 31 December 2021. The Bank employs 3,289 people (2020: 3,267).

OBJECTIVES FOR 2022

The strategy of the Bank remains unchanged and rests on three pillars – organic growth, digitalization and innovation and customer service.

Postbank will continue to expand its lending portfolio, leveraging on the higher demand in the retail segment. The focus will be on building profitable business relationships with the clients, rather than just acquiring new ones and gaining market share. Maintaining solid profitability is vital in the current environment as the regulatory requirements continue to rise thus requiring more capital in order to sustain the expanding business. With the inflation likely to remain elevated in the medium term, the need for strict cost control is becoming more important in order to keep the cost-income ratio at acceptable level. The net profit for the previous year will be retained in order to ensure enough resources to expand the business further and also to cover the announced increase of the countercyclical buffer. The bank will continue to issue more eligible liabilities in order to comply with the interim MREL targets which will enter into force from the beginning of 2022. This additional funding will be added to the expected deposit inflow, so it will be vital to find profitable alternatives to invest the excess liquidity. One of the ways to do this is by developing ESG related products and financing of environment-friendly and energy efficiency investments following the EU Green Deal strategy.

With regard to the nonperforming exposures, Postbank achieved an important milestone with the nonperforming exposures ratio falling below 5% of all loans. The focus in 2022 will be on further reduction of the volume and in the first few months of the year careful monitoring of the performance of the loans which exit the moratorium to ensure that they will smoothly return to their pre-pandemic behavior.

The Bank will continue to invest in digital transformation, upgrading and replacing its IT systems in order to make sure that all front office and back office functions are fully automated and up to the level of the customers' expectations.

Providing excellent customer service also means investing in the physical distribution network since many customers share the personal experience. The ongoing branch transformation project includes more renovations of branches, business and specialized centers as well as expansion of the self-service zones and enhancement of the services offered in them.

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

29 March 2022
Sofia, Bulgaria

CORPORATE GOVERNANCE STATEMENT 2021

1. Corporate Governance Code and Practices.

In compliance with 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 2021 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.

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 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, 2021 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. Risk Committee

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 there are present three members, but in any case including a majority of independent non-executive Members, one of whom is the Chairperson.

In 2021 the RC held 4 (four) regular meetings and 6 (six) extraordinary meetings.

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 2021 the Audit Committee consisted of five 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 2021 two new members of the Audit Committee were appointed. The Audit Committee members' term of office was renewed until June 2024.

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 2021 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 2021 the Remuneration Committee consisted of three members. During 2021 the Remuneration Committee held 7 (seven) meetings.

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 2021 the Nomination Committee consisted of three members. During 2021 the Nomination Committee held 4 (four) 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 2021 is consisted of 4 (four) members as 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 2021 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
- 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 Bulgaria'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 with ratings 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 with ratings 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 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.

3.3.7. 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, HR, Retail and Corporate. Internal Audit Division Head also attends as a non-voting Member.

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 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 monitors and decides 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.

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 2021

In discharging its responsibilities for 2021 the main issues the Board dealt with are related to:

a) Corporate governance:

- Approval of changes in the Bank's organizational structure;
- 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 2021 Internal Capital and Liquidity Adequacy Assessment Process (ICAAP and ILAAP) – Pillar 2 Report.
- Capital Adequacy report was reviewed every quarter.

c) Business monitoring:

- approval of the 2020 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 2020 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, in 2021 Eurobank Bulgaria approved updated 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 Function 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 aims 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 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 European Central Bank, 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, 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.

6.3. 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:

- Raise compliance awareness throughout the Bank;
- Ensure the development of a robust compliance risk identification and assessment framework, provide support and challenge, if required, the business line management regarding the effectiveness of the compliance risk management activities;

- Handle 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;

- Provide advice to the Boards and Senior Management on compliance with applicable laws, rules and standards and keep them informed of related developments;

- Issue policies, procedures and other documents such as compliance manuals, internal codes of conduct & ethics and practice guidelines, in order to provide guidance to staff on the appropriate implementation of applicable laws, rules and standards as well as to assist the business to develop and implement regulatory compliant policies and procedures;

- Monitor and test whether staff applies effectively the internal processes and procedures aimed at achieving regulatory compliance;

- Monitor the timely submission of reports to competent authorities and report any delays and fines for any alleged breaches of regulations to the Audit Committee;

- Fulfil any statutory responsibilities and liaise with regulators and external bodies on compliance issues.

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 Board 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.

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 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.

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

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.

NON-FINANCIAL DECLARATION 2021

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 Bulgaria believes that environmental responsible action is an essential part of sustainable business growth. As a financial services institution, Postbank acknowledges the impact on the environment from its operations and seeks efficiency in the use of natural resources, as well as minimization of waste. It also recognizes indirect impacts stemming from lending and investment activities and from relationships with its stakeholders and society at large.

Postbank is committed to assess the environmental impact of its activities, set appropriate objectives and targets, continuously control and improve its environmental performance and comply with the local national and international environmental laws and regulations.

Postbank believes that environmental management is an integral part of an enterprise's proper and socially responsible behavior. To this end it pursues responsible environmental attitude towards its shareholders, employees, clients, suppliers and society at large, by implementing sound environmental practices, whilst promoting 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.

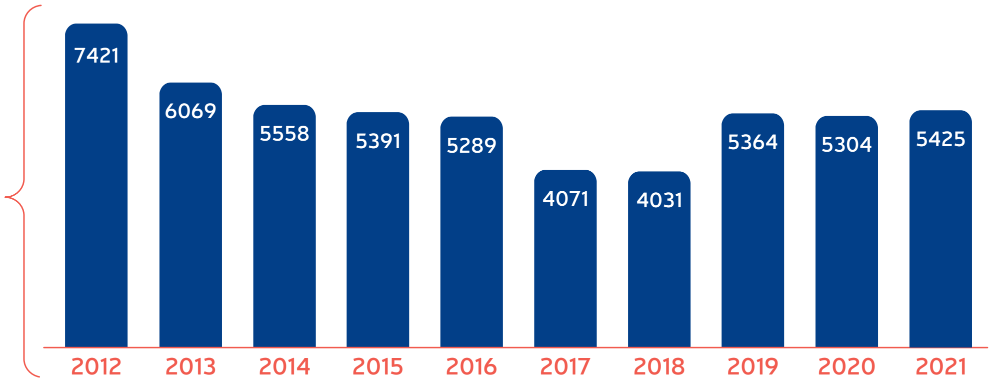
Postbank is committed to actively manage both its direct and indirect environmental impacts on the environment. For that matter it has established Environmental and Sustainability Committee, Green Board and Environmental and Social Affairs Coordinator in its organizational structure, which are in charge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

2. 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 – CO_2 emissions from electricity consumption, and the use of paper and water.

The outcome of the analysis on 2021 data is presented in Fig. 1, 2, and 3 below through three selected environmental indicators. These indicators are presented in dynamics for a period of 10 years spanning 2012-2021, 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 CO_2 Footprint from Electricity Consumption, 2012-2021

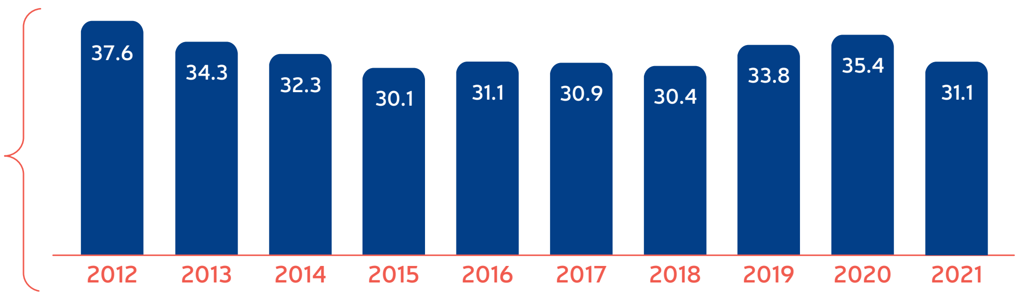


Source: Environmental Office calculations based on Premises Department data

As evident from the chart presented in Fig. 1, CO2 emissions from electricity use in Postbank have slightly decreased –37% when compared to the base 2012 year.

The data on paper consumption are presented on Fig 2. They show that the Bank has consumed 14% less paper in 2021 YoY. This is mainly a result of the various very successful digitalization projects and the dedicated efforts to decrease internal use of this resource. Compared to the base 2012 year, the decrease is even larger: 21%.

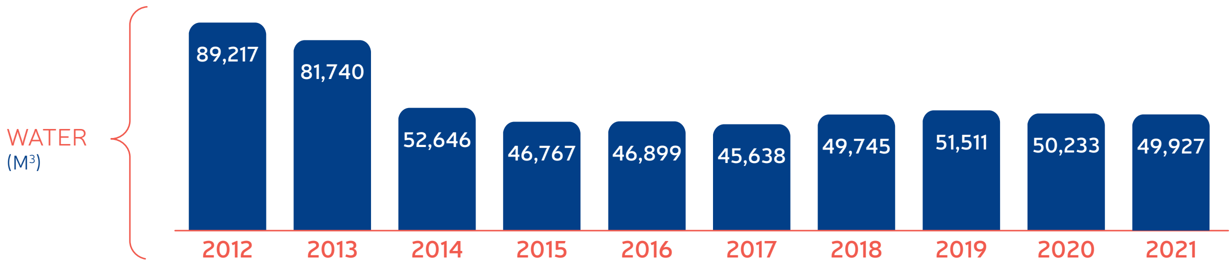
Fig. 2 Paper Consumption in Postbank, millions sheets of paper, 2012-2021



Source: Environmental Office calculations based on Administrative Department data

Water consumption for office needs has shown a slight decrease of 1% in 2021 YoY. Data are presented on Fig. 3 below. The analysis of the data on water consumption for the past 10 years shows that it has been decreased almost 100 % 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, 2012-2021



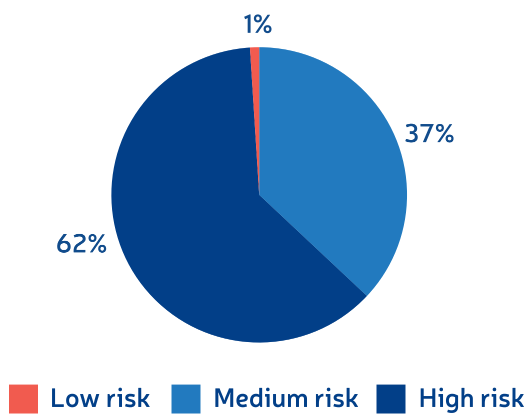
Source: Environmental Office calculations based on Premises Department data

3. Climate-change related, environmental and social risk management in lending

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, Climate Change-Related, Environmental and Social Risk Management Procedure is implemented to ensure that lending is provided accounting for the risks for the climate, the environment and society. 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 in the loan approval and subsequently 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 a significant number of the deals in this portfolio, 37%, have low environmental and social risk, 62% have medium risk, and only 1% are characterized by having high such risks.

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



Source: Environmental Office calculations based on Corporate banking and Small Business banking divisions data

Postbank views responsible relationships with its clients and customers as instrumental for working LChange-Related, Environmental and Social Risk Management Procedure of the Bank. It is applicable to all small business and corporate clients.

According to it, all commercial deals are evaluated based on how the applicants are dealing with climate change-related, environmental and social matters in their operations. The Bank appraises each such deal based on a number of both quantitative and qualitative environmental, climate-related and social criteria, part of which are then input in an automated scorecard. The aim is to ensure that the customer demonstrates high awareness of the related matters and is making his best efforts to act accordingly.

An important part of the evaluation process includes requesting the customer to fill in a short questionnaire with qualitative questions on how his business activities relate to the environmental, climate and social considerations. This questionnaire is completed by the customer with the assistance of the bank employee in charge of him so that exchange of information could take place as to what the needs of the customers are and how the Bank could meet them.

As a result of the application of the procedure and the automation of the process, deals are being monitored for their environmental, climate-related and social aspects on an annual basis and, if necessary, remedial actions could be requested from the client so that proper management of associated risks is ensured.

Apart from risk management, during the reporting period Postbank formalized the steps that need to be taken inside the bank in order for green banking products to be launched. The Bank intends to encourage the creation and spread of green products that could meet the demands of its customers, which will lead to more sustainable relationships them.

The bank is proactive towards its clients by proposing them green products so that they could benefit from such opportunities. In the reporting period, a structured deposit product INDEX Climate Change has been introduced that allows for receiving income from the dynamics of the index. The bank is planning to expand its green products portfolio in the coming years.

During the reporting period all corporate banking staff as well as small business banking and finance management staff have undergone training in climate-related, environmental and social risk management principles and in the application of the respective Procedure at the bank. Within this period one presentation dedicated on the EU Green Deal impact on banking was presented at an Executive Committee meeting, and a training dedicated to the same topic was done for the Management Board and Supervisory Board members.

The EU Taxonomy (Regulation (EU) 2020/852 of the European Parliament and of the Council) is a green classification system that translates the EU's climate and environmental objectives into criteria for specific economic activities for investment purposes. The Taxonomy Regulation is a key component of the European Commission's action plan to redirect capital flows towards a more sustainable economy.

For an economic activity to be defined as environmentally sustainable under the Taxonomy, and thereby classified as aligned with the Taxonomy, it must meet the following criteria:

1. making a substantial contribution to at least one environmental objective
2. doing no significant harm to any other environmental objective
3. complying with minimum social safeguards
4. complying with the technical screening criteria

The Taxonomy is currently limited to the classification of environmentally sustainable economic activities. However, work is ongoing at the EU level to review whether the Taxonomy will be expanded to classify e.g. social sustainability and activities that could cause significant harm to the environment.

The year 2022 is the first year that NFRD undertakings, including the Bank, are reporting according to the Taxonomy. For financial undertakings, according to the Art. 10 of the same Delegated Act, the transitional rules for the period from 1 January 2022 until 31 December 2023 are limited to the reporting of the extent to which their customers and counterparties' activities are Taxonomy-eligible as well as information on assets that cannot be assessed under the Taxonomy Regulation, e.g. derivatives.

The Bank has calculated the data needed for the requisite disclosures based on the EBA's recommendations and the European Commission's FAQs and used the FINREP reporting format. "FINREP" is the required format of reporting based on the Regulation (EU) No 575/2013 of the European Parliament and of the Council Regulation (EU) No 575/2013 (CRR) and Regulation (EU) No 680/2014. A conservative approach was utilized in the analysis: if insufficient data is available to assess counterparty's eligibility, the Bank considers it as non-eligible.

The reported KPIs are included in the table below:

Taxonomy KPIs	
Taxonomy-eligible assets/ Covered assets	**27.1%**
Taxonomy non-eligible assets/ Covered assets	**72.9%**
Non-NFRD counterparties/ Total Assets	**26.7%**
Derivatives, hedge accounting / Total Assets	**0.0%**
Trading and On-demand interbank loans/ Total Assets	**1.2%**
Central governments, central banks, supranational issuers/ Total Assets	**24.9%**

Taxonomy-eligible assets include residential and commercial real estate mortgages towards households and non-financial corporations (categories according to FINREP).

Covered assets include financial assets at amortized cost, financial assets at FVOCI, financial assets at FVPL, repossessed collaterals by the Bank. Total covered assets do not include exposures to central governments, central banks and supranational issuers.

The exposure to undertakings that are not subject to NFRD has been identified excluding the counterparties that are subject to NFRD from the total asset of the Bank.

Central governments, central banks, derivatives, trading positions and on-demand interbank loans have been identified according to FINREP.

The Bank will continue developing its environmental management strategy by closely monitoring ESG and climate change regulatory and market developments, identifying and exploiting areas of most significant positive and negative environmental and climate-change impact of its operations and building strategic business opportunities in relation to the increase of positive impacts and reduction of negative impacts.

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

In 2021 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 2021

Under 25 years		25-34 years		35-44 years		45-54 years		over 55 years	
Women	Men	Women	Men	Women	Men	Women	Men	Women	Men
82.00%	18.00%	75.22%	24.78%	77.03%	22.97%	79.11%	20.89%	79.85%	20.15%

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 2021

	Specialist positions	Expert positions	Managerial positions
Female	91.78%	72.33%	57.52%
Male	8.22%	27.67%	42.48%

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.

The successful recruitment process is highly important for having qualified and motivated human capital. Therefore, as it has been so far, this process complies with high professional standards of accuracy, transparency and objectivity. The selection process took place entirely online, and providing a good digital experience to applicants became the main task for all the participants in the process.

The opportunity for professional development and providing professional training to employees is focus of the Bank and one of the most powerful means to achieve its strategic goals. Considering the change related to the epidemiological situation, the approach and the way of training of the employees has changed, but what has remained unchanged is the emphasis on connecting the theoretical training with the real practice.

During the pandemic, in an effort to support people's professional and personal development, we have provided an opportunity for all our employees to enroll in e-learning trainings and to develop their skills. Given the changed situation, we revised and adapted the training program for newly appointed employees, paid special attention to the practical part of the training and to the opportunity to work in a real environment under the supervision of the coach, we added the support of a Mentor.

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

Staff Development Processes and the Talent Management Program were launched in stages and the processes include four main stages:

- People Mapping - employee segmentation and talent identification
- Succession Planning - supporting business continuity and sustainability, building the next generation of leaders
- Evaluation for development - tools for identifying strengths and areas for development
- Employee development activities - development programs, trainings

The processes cover the entire branch network and strategic units in the head office. We have launched: BRANCH MANAGEMENT ACADEMY, Mentoring Program – POSTBANK BOLD Mentoring, MBA Essentials Program and Leadership Development Program. The feedback on the different levels is of particular importance and we seek the views of staff on all stages of the programs.

Through RPA technologies and digital solutions we facilitate the work of employees, but we rely on their unique human skills, which no machine can replace. We involve them in teambuilding, internal and volunteer initiatives.

The Bank'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.

In 2021, Postbank retained its place among the best banks in the world, and for the fourth consecutive year was awarded the „Best Bank in Retail Banking in Bulgaria" by the World Finance Banking Awards. Mr. Dimitar Shumarov, Chief Financial Officer and Executive Director of Postbank, was awarded „Banker of the Year". Among the numerous awards of Postbank in 2021 are also: the award „Bank of the Year" in the annual awards „Company of the Year", the award for „Efficiency" from the Bank of the Year Association, award in the category „Innovation" of the competition „Mr. and Mrs. Economy"of KRIB and magazine. „Economy", „Green CSR campaign" 1st place in the competition „The greenest companies in Bulgaria"

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 for the third year the award „Best Employer of the Year" at the Employer Branding Awards 2021 organized by b2b Media, winning first place in the category „Employer Branding Innovation (in

Pandemic Times)" - 2021. The bank's talent management strategy won recognition from the leading awards for the best employer Career Show Awards 2021.

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. We also created the Postbank Dream Team - a new internal site dedicated to the Bank's team, which is a tool for recognition, commitment and additional motivation for employee development. Via the internal e-bulletin, distributed weekly by e-mail, the important new information, relevant to staff members is instantly communicated to all employees.

Postbank actively works in support of building and maintaining a strong employer brand of the company and to enhance organizational performance in the key areas of employees' engagement, recruitment, retention and talent acquisition, as well as to maintain a supportive and trustful working environment, resulting in motivated and committed employees and loyal and satisfied customers.

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 as well as an additional pension insurance scheme for employees with longer service with the Bank. 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.

In addition to the performance management system, for first time, for a group of key employees in the bank, 360 Feedback was applied, which is an opportunity for employees to see each other from the side, through the assessment of their performance made by colleagues who are familiar with their work at several levels. This process usually involves direct subordinates, colleagues, line managers. The results of the information gathered provide a better idea of their strengths as managers, as well as the areas that need development.

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 which is responsible for the Bank's head office and branches. Related to the Covid pandemic situation we conduct a regular disinfection of office spaces, according to the requirements of the Ministry of Health.

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 2021, the Bank implemented a number of socially significant projects in the field of education, environmental protection, sports and corporate charity. 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.

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.

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.

In 2021 we proposed an innovative approach to cooperation between education and business - we launched a project with Sofia University to train future financial experts in the master‘s program at the Faculty of Economics „Finance and Banking“. Two separate modules - „Banking Management“ and „Investment Banking“ were developed by experts of the bank and over 20 key employees of the management staff became lecturers.

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:

Human Rights:

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.

Labour Standards:

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.

Environment:

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.

Anti-Corruption:

Principle 10: Businesses should work against all forms of corruption, including extortion and bribery

FINANCIAL STATEMENTS

Income statement

	Notes	Year ended 31 December 2021	2020
Interest income calculated using the effective interest method		371,182	364,866
Other interest income		6,951	9,658
Interest expense and similar charges		(11,070)	(12,659)
Net interest income	**6**	**367,063**	**361,865**
Fee and commission income		148,479	122,917
Fee and commission expense		(24,578)	(19,518)
Net fee and commission income	7	**123,901**	**103,399**
Other operating income, net	8	2,254	1,318
Dividend income		517	445
Net trading income	9	486	436
Gains less (losses) from trading securities	17	168	(86)
Gains less (losses) from investment securities	196	1,230	3,071
Repossesed assets impairment		(240)	(700)
Other operating expenses	10	(207,178)	(188,483)
Deposit Insurance Fund expense		(15,524)	(28,043)
Impairment charge for credit losses	12	(84,385)	(83,403)
Profit before income tax		**188,292**	**169,819**
Income tax expense	13	(19,066)	(17,143)
Profit for the year		**169,226**	**152,676**

The following notes set out on pages 62 to 199 form an integral part of these financial statements

The financial statements were authorized by the management on 29 March 2022.

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:

Sevdalina Dimova
Registered Auditor responsible for the audit

Ivan Andonov
Authorised representative
For KPMG Audit OOD

For Baker Tilly Klitou and Partners EOOD:

Galina Lokmadjieva
Registered Auditor responsible for the audit

Spyridon Gkrouits
Authorised representative
For Baker Tilly Klitou and Partners EOOD

Statement of comprehensive income

	Notes	Year ended 31 December 2021	2020
Profit for the year		**169,226**	**152,676**
Items that are or may be reclassified subsequently to profit and loss:	**14**	***(13,437)***	***(1,126)***
Debt securities at FVOCI			
- net changes in Fair Value, net of tax		(7,089)	(256)
- reclassified to profit or loss, net of tax		(6,348)	(870)
Items that will not be reclassified to profit or loss:		***7,702***	***1,365***
Change in FV of property, plant and equipment, net of tax		3,371	912
Remeasurements of retirement benefit obligations, net of tax		4,331	453
Other comprehensive income for the year	**14**	**(5,735)**	**239**
Total comprehensive income for the year		**163,491**	**152,915**

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Statement of financial position

	Notes	As at 31 December	
		2021	**2020**
ASSETS			
Cash and balances with the Central Bank	15	2,139,549	1,935,834
Loans and advances to banks	16	505,362	515,906
Trading assets	17	38,369	40,672
Derivative financial instruments	25	11,460	1,352
Loans and advances to customers	18	8,793,951	7,798,875
Investment securities	19a	2,635,788	1,463,077
Current income tax recoverable		-	2,518
Deferred tax assets	28	8,556	11,191
Property, plant and equipment, including right of use assets	21	235,255	211,255
Investment property	20	797	890
Intangible assets	22	79,670	76,916
Other assets	23	41,337	45,363
Total assets		**14,490,094**	**12,103,849**
LIABILITIES			
Deposits from banks	24	9,535	7,739
Derivative financial instruments	25	9,139	9,442
Due to customers	26	12,313,508	10,234,485
Other borrowed funds	27	166,578	29,370
Current income tax payable		976	-
Provisions for other liabilities and charges	29	11,417	13,426
Retirement benefit obligations	30	3,629	8,238
Other liabilities	31	188,274	177,602
Total liabilities		**12,703,056**	**10,480,302**
SHAREHOLDERS' EQUITY			
Share capital		560,323	560,323
Statutory reserves		282,521	282,521
Retained earnings and other reserves		944,194	780,703
Total shareholders' equity	32	**1,787,038**	**1,623,547**
Total shareholders' equity and liabilities		**14,490,094**	**12,103,849**

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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 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**
Balance at 01 January 2021	**560,323**	**2,766**	**19,174**	**282,521**	**758,763**	**1,623,547**
Profit for the year					**169,226**	**169,226**
Other comprehensive income						
Change in fair value reserve on financial assets at FVOCI			(13,437)			**(13,437)**
Revaluation of property, plant and equipment	-	3,371		-	-	**3,371**
Remeasurements of retirement benefit obligations, net of tax	-	-		-	4,331	**4,331**
Total comprehensive income for 2021	**-**	**3,371**	**(13,437)**	**-**	**173,557**	**163,491**
Balance at 31 December 2021	**560,323**	**6,137**	**5,737**	**282,521**	**932,320**	**1,787,038**

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Statement of cash flows

	Year ended 31 December 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	381,992	368,235
Interest paid	(10,563)	(13,937)
Dividends received	517	445
Fees and commission received	148,421	123,447
Fees and commission paid	(23,892)	(17,168)
Amounts paid to and on behalf of employees	(110,659)	(98,484)
Net trading and other income received	503	161
Other operating expenses paid	(94,538)	(98,044)
Tax paid	(14,400)	(13,550)
Cash from operating activities before changes in operating assets and liabilities	**277,381**	**251,105**
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Net (increase) in reserve with the Central Bank	(104,532)	(45,256)
Net (increase) in loans and advances to banks	-	(97,812)
Net (increase)/ decrease in trading securities	2,303	(31,867)
Net (increase) in loans and advances to customers	(1,091,773)	(714,548)
Net (increase)/ decrease in other assets	2,729	(3,767)
Net (decrease) in derivatives instruments	(3,261)	(425)
Net (decrease)/ increase in due to other banks	1,796	(7,297)
Net increase in amounts due to customers	2,079,352	778,888
Net increase/ (decrease) in other liabilities	14,355	(12,257)
Net cash flows from operating activities	**1,178,350**	**116,764**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets (Notes 21,22)	(29,644)	(25,727)
Purchase of investment securities	(1,919,922)	(1,258,656)
Proceeds on disposal of property and equipment	136	106
Proceeds from sale of investment securities	734,745	342,454
Net cash flow/(used in) from investing activities	**(1,214,685)**	**(941,823)**

	Year ended 31 December	
	2021	2020
CASH FLOWS FROM/ (USED IN) FINANCING ACTIVITIES		
Long-term financing received	146,687	-
Long-term debt repaid	(9,566)	(9,566)
Payment of lease liability	(12,398)	(13,798)
Net cash used in financing activities	**124,723**	**(23,364)**
Effect of exchange rate changes on cash and cash equivalents	261	163
Net change in cash and cash equivalents	**88,649**	**(848,260)**
Cash and cash equivalents at beginning of year	**1,891,766**	**2,740,026**
Cash and cash equivalents at end of year (Note 33)	**1,980,415**	**1,891,766**

The financial statements were authorized by the management on 29 March 2022.

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:

Sevdalina Dimova
Registered Auditor responsible for the audit

Ivan Andonov
Authorised representative
For KPMG Audit OOD

For Baker Tilly Klitou and Partners EOOD:

Galina Lokmadjieva
Registered Auditor responsible for the audit

Spyridon Gkrouits
Authorised representative
For Baker Tilly Klitou and Partners EOOD

The following notes set out on pages 62 to 199 form an integral part of these financial statements

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 199 network locations and 13 business centers (2020: 201 network locations and 13 business centers). The registered office address is: 260 Okolovrasten pat, 1766 Sofia, Bulgaria. The Bank employs 3,289 people (2020: 3,267).

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

2021 was a year of robust recovery, as the Greek economy reclaimed most of its pandemic-inflicted-losses. Following the progress of the national vaccination programme and improvement of the epidemiological conditions, the latest nationwide lockdown ended in May 2021. All domestic mobility restrictions were lifted (with the exception of municipalities or regional units temporarily designated as "dark red zones") and Greece reopened its borders to most international travellers. Previously suspended economic activities were allowed to resume, with certain protective measures remaining in place.

The Greek government plans to reduce its overall deficit to 4.0% and its primary deficit to 1.4% of GDP in 2022 (in European System of Accounts [ESA2010] terms), according to the 2022 Budget compiled by the Ministry of Finance; the respective figures in 2021 are estimated at 9.6% and 7.0%, mainly as a result of a pandemic stimulus and relief package of €16.9bn.

On the monetary policy front, the European Central Bank (ECB) announced on 16 December 2021 that it would cease bond purchases under its Pandemic Emergency Purchase Programme (PEPP) at the end of March 2022, as scheduled. Reinvestment of principal from maturing securities will, however, continue at least until the end of 2024, allowing explicitly for the purchase of Greek Government Bonds (GGBs) over and above rollovers of redemptions. As of 31 January 2022, ECB net purchases of GGBs under PEPP amounted to €36.9bn.

Regarding the outlook for the next 12 months, the major macroeconomic uncertainties in Greek economy mainly are related to the evolution of the health crisis in view of Covid-19 and its negative effect on the domestic, regional and global economy, a prolongation and/or exacerbation of the ongoing inflationary pressure, especially in the energy sector and the supply chain, and its impact on economy, the geopolitical conditions in the near or in broader region, especially the conflict in Ukraine, and its ramifications on the regional and global stability and security, the exacerbation of natural disasters due to the climate change and their effect on GDP, employment and fiscal balance.

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" post the moratoria expiration, the protection of its asset base and the resilience of its pre-provision profitability.

RELATED PARTY TRANSACTIONS - EUROBANK S.A. SHAREHOLDING STRUCTURE

Eurobank Ergasias Services and Holdings S.A. (Eurobank Holdings) is the parent company of Eurobank S.A., which resulted from the demerger of Eurobank Ergasias S.A. ("Demerged Entity") through its banking sector's hive down that was completed in March 2020.

The Board of Directors (BoD) of Eurobank Holdings is the same as the BoD of Eurobank S.A. and part of the Key Management personnel (KMP) of Eurobank S.A. provides services to Eurobank Holdings according to the terms of the relevant agreement between the two entities. As at 31 December 2021, the percentage of the Eurobank Holdings'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 Eurobank Holdings 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 Eurobank S.A., Eurobank Holdings and the HFSF signed on 23 March 2020.

In July 2021, Eurolife FFH Insurance Group Holdings S.A. became a subsidiary of Fairfax and the percentage of Eurobank Holdings voting rights held by Fairfax Group increased from 31.27% to 33% of the total number of Eurobank Holdings voting rights. Fairfax Group is considered to have significant influence over the Eurobank Holdings.

A number of banking transactions are entered into with related parties in the normal course of business and are conducted on an arm's length basis. 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.

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 with the evolution of Covid-19 pandemic 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 2020, 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 (Note 3.1).

2.1.1 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

New and amended standards adopted by the Bank as of 1 January 2021

The following amendments to standards as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), apply from 1 January 2021:

Interest Rate Benchmark Reform - Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In the context of the market-wide reform of several interest rate benchmarks (referred to as "IBOR reform"), the IASB has undertaken a two-phase project to address the issues affecting financial reporting by the IBORs' replacement and considered any reliefs to be provided in order to eliminate the resulted effects. The adoption of the first phase related to hedge accounting had 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.

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 the issues that affect financial reporting once an existing rate is replaced with an RFR and provides specific disclosure requirements. The Phase 2 amendments provide key reliefs related to the contractual modifications due to the reform and the hedging designations affected once the Phase 1 reliefs cease to apply.

More specifically, the amendments introduce a practical expedient if a contractual change, or changes to cash flows, result "directly" from the IBOR reform and occurs on an 'economically equivalent' basis.

In these cases, changes will be accounted for by updating the effective interest rate of the financial instruments subject to reform, similar to the 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 the IBOR reform.

In addition, the Phase 2 amendments permit changes, as a result of the IBOR reform, to be performed to hedge designations and hedge documentation without the hedging relationship being discontinued. Permitted changes include redefining the hedged risk and the description of the hedging instruments and/or the hedged items to reflect RFR as well as amending the description of how an entity will assess the hedge effectiveness (under IAS 39 only).

An entity will apply the existing requirements in IAS 39 or IFRS 9 for qualifying fair value and cash flow hedging relationships to account for any changes in the fair value of the hedged item or the hedging instrument while any resulting ineffectiveness will be recognized in the income statement. Upon changing the hedge designation, once the Phase 1 reliefs cease to apply, the amount accumulated in the cash flow hedge reserve is also assumed to be based on the RFR for the purpose of assessing whether the hedged future cash flows are still expected to occur.

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. The Phase 2 amendments clarify that changes to the method for assessing hedge ineffectiveness due to the modifications required by the IBOR reform, will not result to the discontinuation of the 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.

In addition, 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.

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 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.

IFRS 4, Amendment, Deferral of IFRS 9

In June 2020, the IASB extended 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.

Amendment to IFRS 16 - Covid-19-Related Rent Concessions beyond 30 June 2021

In March 2021, the IASB extended by one year the application period of the practical expedient in IFRS 16 'Leases' that provides practical relief to lessees from applying the IFRS 16 guidance for lease modifications to rent concessions occurring as a direct consequence of the Covid-19 pandemic. In particular, based on the aforementioned extension of the practical expedient, the lessee may account for any reduction in lease payments, originally due on or before 30 June 2022, as if they were not lease modifications. The amendment is effective for annual reporting periods beginning on or after 1 April 2021.

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

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 2021, as they have not yet been endorsed by the European Union (EU), or have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

IFRS 3, Amendments, Reference to the Conceptual Framework (effective 1 January 2022)

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 the Bank's financial statements.

Annual improvement to IFRSs 2018-2020 cycle: IFRS1, IFRS9 and IFRS 16 (effective 1 January 2022)

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, the amendments allow 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.

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 the Bank's financial statements.

IAS 37, Amendment, Onerous Contracts – Costs of Fulfilling a Contract (effective 1 January 2022)

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 the Bank's financial statements.

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

The amendments, published in January 2020, affect only the presentation of liabilities in the balance sheet 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, an 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)

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 at 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 aim to assist entities to transition in order to implement the standard more easily, while they deferred the effective date, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2023.

During 2021, the IASB issued another narrow-scope amendment to IFRS 17 which is applicable on transition to the new standard, effective from 1 January 2023. However, it does not impact any other requirements of IFRS 17.The amendment to IFRS 17 clarifies the transition requirements of IFRS 17 for entities that first apply IFRS 17 and IFRS 9 at the same time. There are no changes to the transition requirements in IFRS 9. An entity that elects to apply the amendment applies it in the comparative information of the financial statements when it first applies IFRS 17. The 2021 amendment is not yet endorsed by EU.

IFRS 17 is not relevant to the Bank's activities.

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.

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 the 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" that 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 clarifies 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 the Bank's financial statements.

IAS 12, Amendments, Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective 1 January 2023, not yet endorsed by EU)

The amendments clarify that the initial recognition exemption set out in IAS 12 'Income Taxes' does not apply for transactions such as leases and decommissioning obligations. These are transactions where entities recognise both an asset and a liability.

More specifically, the amendments require an entity to recognise deferred tax on certain transactions (e.g. leases and decommissioning liabilities) that on initial recognition give rise to equal amounts of taxable and deductible temporary differences. Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability separately, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12. The amendments also add an illustrative example to IAS 12 that explains how the amendments are applied.

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

OTHER ACCOUNTING DEVELOPMENTS

IFRIC agenda decision - Attributing Benefit to Periods of Service (IAS 19)

In May 2021, an IFRIC agenda decision was published that concludes about the periods of service over which an entity should attribute benefits under a specific retirement defined benefit plan based on the existing requirements of IAS 19. In particular, according to the above decision, the attribution of the benefit shall not begin from the start of the employment date but from the date when the employee service first leads to benefits under the terms of the plan until the date when further employee service will lead to no material amount of further benefits.

In the fourth quarter of 2021 the Bank has applied the IFRIC.

2.2 PRINCIPAL ACCOUNTING POLICY

The policies set out below have been consistently applied to the years 2021 and 2020.

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.

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 2021, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2020: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.579089 (2020: BGN 1 for USD 0.627408).

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 ;

(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.

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.

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 instrumen

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.

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.

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
- Improvements of own buildings – 15 years
- Computer hardware - 4-10 years
- Other furniture and equipment - 3-20 years
- Motor vehicles- 5 years

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.

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

(6) 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.

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.

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 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.

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.

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 2021 and 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.

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.

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 changes 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

As of 1 January 2021, the Bank adopted the new Definition of Default (New DoD), according to the EBA guideline (Article 178 of Regulation (EU) No 575/2013). Information on the New DoD implementation is provided in note 5.2.1.2

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.

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.

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:

- Credit exposures with EBA status Non-Performing (NPE) are transferred from Stage 3 to Stage 2, when the EBA status is changed to Performing Exposure (PE), complying at least three months probation period since the day a criteria for default was last valid.

- Credit exposures with EBA status Non-Performing Forborne are transferred from Stage 3 to Stage 2 when the EBA status is changed to Performing Forborne Cured NPE (PFC), after meeting all the probation period conditions:

  Conditions applied during the whole 12-month probation period:

  - Days past due remain 0;
  - There is no new forbearance measure applied;
  - No other default events occur on exposure level.
  - Any breach of the aforementioned conditions will lead to restart of the 12-month probation period.

  Conditions applied at the end of the probation period:

  - The borrower has paid, via its regular payments in accordance with the restructuring arrangements, a total equal to the sum of the amount that was previously past due and the amount that has been written-off before the NPF classification.

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.

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.)
- 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)

- Observed credit history (i.e. characteristics based on the debt service behavior of borrowers recorded in the Bank's books)

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 amount equal to the lifetime expected credit losses under the simplified approach.

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.

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.

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.

(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.

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.

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 those expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service and 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 acquired entitlement to a contributory-service and required retirement age, irrespective of the reason for the termination, the employee shell be entitled to compensation as follows: 2 gross monthly salaries in all cases and 6 gross monthly salaries where the employee has acquired with the Bank or in the Eurobank Group 10 years length of employment service during the past 20 years. Compensations under this paragraph are payable on a single occasion only.

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.

In the fourh quarter of 2021 the Bank has applied IFRIC agenda decision - Attributing Benefit to Periods of Service (IAS 19). Based on the interpretation, retirement obligation first arises from the date when employee service first leads to benefits under the plan until the date when further employee service will lead to no material amount of further benefits. The obligation is calculated using only the number of consecutive years of employee service immediately before the retirement age and is capped in a number of years of service depending on the with article 222, Para. 3 of the Bulgarian Labour Code described above.

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.

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.

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.

From January 2021 a new definition of default as per EBA guideline (Article 178 of Regulation (EU) No 575/2013) is implemented in the bank. The new definition led to the need of calibration of all related models to IFRS9 framework of the bank. The existing methodology incorporates behaviour and macroeconomic factors in the modelling following the best practice for IFRS9 modeling. The respective approach is kept similar during the new definition of default model calibration project where all analyses and regressions are performed to predict the new default event. In addition the gained experience during the macroeconomic crisis caused by the Covid-19 pandemic lead to certain model improvements aiming to increase model performance in case of future crisis.

Due to the extraordinary circumstances of the Covid-19 pandemic, 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 2021 and 31 December 2020, 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	
	2020	2021
Consumer	10% - 70%	0.01% - 100%
Mortgage	20% - 30%	80% - 100%
SBB	0,01% - 80%	20% - 100%
Wholesale	100% - 2000%	50% - 500%

COVID-19 pandemic continues to be the main factor for the uncertainty regarding the recovery of the world's economy. Due to its global reach and impact nature it is posing significant challenges to IFRS9 ECL estimation. 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 and the assumptions inherent in IFRS9 models, the Bank continues to perform additional 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. 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.

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 8,301 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. In November 2020, in view of the unprecedented situation of the COVID-19 pandemic and its effect on the macro curves, the Management of the Bank took a decision to apply more conservative weights on the macro scenarios for the purposes of the IFRS 9 provisioning process. The decision was mainly based on the fact that there was insufficient real data for the impact of the pandemic on the macro curves applied in the models and thus the effect of the pandemic could not have been fully incorporated in the final results.

Nearly two years after the beginning of the pandemic, the macro data for the period since the beginning of 2020 is now available and the predictive model for the macro curves now includes real data for the pandemic period, which means that the predicted curves for the three scenarios are now naturally adjusted with the effect of the pandemic. Considering this and the fact that the predictive model is based on weights 30%, 40% and 30% for the Adverse, Baseline and Optimal scenario respectively, the Management of the Bank decided to apply 30% Optimal, 40% Baseline, 30% Adverse weights for the macro scenarios in the IFRS9 provisioning process for 2021 year end ECL calculation process.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:

- Despite recent adverse developments with the COVID-19 situation, wide closures and new nation-wide lock-downs are not expected, although some level of restrictions (incl. certificates) has been assumed.
- A recovery on the side of exports and investments is expected during 2022, with 2020 base-effects dropping out. Businesses and households will also benefit from the Recovery and Resilience Plan over the medium term.
- Household consumption will provide a steady base, underlined by growing income and favourable conditions on the labour market. As business gains ground, hiring will pick-up and investment activity will grow, though demographic factors will limit gains in the labour market.
- The unemployment rate remains above the pre-pandemic levels. Businesses are still cautious, and hiring is moderate due to uncertainty related to the vaccination rate, high number of new Covid-19 cases and the political situation, to some extent. As a result unemployment will fall only gradually as confidence returns, though demographic factors will also come into play.
- The price level is expected to remain elevated till mid 2022 as underlying factors persist. After the winter season has passed, demand for energy goods should ease, allowing for price growth to

moderate. Supply-chain difficulties and bottlenecks along with stable domestic demand will contribute to inflationary pressures but are expected to cut some slack after 2022.

- The base interest rate is currently set to 0% with future movements likely to be in line with the expectations about the dynamics of the interest rate on the main refinancing operations set by ECB.

- Unemployment is expected to remain the same during Q1 2022 and then gradually ease until the end of 2022.

The following risks have been taken into consideration:

I. Downside risks:

Assumptions around the timescales for bringing the pandemic under control and wider vaccination are more pessimistic than in the base scenario. Stricter containment measures over the winter season and possibly after due to the slow vaccination rates. Additional economic shocks could arise from a sooner-than-expected tightening in credit conditions. The reduced availability of credit for households and business will have a deeper hit on investments and consumer spending. Political shocks and extended delays in stable government formation will lead to delay in adopting and implementing crucial policies bringing uncertainty higher and delaying economic recovery further.

II. Upside risk

The vaccination uptake grows faster and further strict suppression policies are avoided. Technology and infrastructure handle latest developments appropriately and virus variations are contained and countered effectively. Achieving higher vaccination rates will limit future surges on decrease uncertainty to allow for continued improvements in the economic environment. This will also help speed up recovery in the travel and tourism sectors, as the country stays out of the radar by becoming a safer destination. Additional gains would arise from favourable developments on the political stage – the formation of a government will allow for proper and timely resolution of arising obstacles. Swifter adoption of the Recovery and Resilience Plan will also boost economic recovery.

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 2021, the arithmetic averages of the scenarios' probability-weighted annual forecasts from 2022 to 2026, are set in the following table:

	Unit	**Arithmetic Average (2022 - 2026) Probability weighted annual forecast**
Gross Domestic Product	YOY % 2010 prices	3.46%
Domestic Demand	YOY % 2010 prices	2.86%
Number of Employed	YOY %	(0.72%)
Unemployment Rate	%	5.49%

	Unit	Arithmetic Average (2022 - 2026) Probability weighted annual forecast
Long term interest rate	%	2.50%
Retail Sales	YOY %	3.52%
Average Monthly Wage	YOY %	3.94%
Total Disposable Income Per Person	YOY %	5.07%
House Price Index	YOY % 2015=100	4.56%
Interest Rate Spread (companies)	%	4.35%
Central Bank Policy Rate	%	0.88%
Imports (goods and services)	YOY %	3.54%

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 8,301 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 3,746 thousand. It forms part of the impairment allowance and provides for the residual risk raised during the additional SICR&UTP assessment process. In estimating the adjustment, Management exercised judgement based on the knowledge of the Bank's lending portfolios, their particular characteristics and behavioral aspects.

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 (2022-2026), compared to the actual probability weighted macroeconomic scenarios. The values presented below for baseline scenario are a probability weighted average where the applied probabilities are 30% for the optimistic macro forecast, 40% for the baseline macro forecast and 30% for the adverse macro forecast. The values presented for the optimistic scenario are a probability weighted average with a 75% weight used for the optimistic macro forecast and 25% weight of the baseline macro forecast. The value presented for the adverse scenario are a probability weighted average with a 75% weight used for the adverse macro forecast and 25% weight of the baseline forecast.

Sensitivity Scenario							
Indicator	**Unit**	**Scenario**	**2022**	**2023**	**2024**	**2025**	**2026**
Gross Domestic Product	YOY % 2010 prices	Optimal	8.01%	6.19%	6.19%	5.88%	5.36%
		Baseline	3.78%	3.41%	3.49%	3.38%	3.23%
		Adverse	-0.14%	0.72%	0.80%	0.83%	0.86%
Domestic Demand	YOY % 2010 prices	Optimal	5.53%	4.25%	4.06%	3.89%	3.71%
		Baseline	3.06%	3.01%	2.84%	2.73%	2.67%
		Adverse	0.43%	1.68%	1.54%	1.47%	1.52%
Number of Employees	YOY %	Optimal	0.72%	-0.21%	-0.26%	-0.31%	-0.29%
		Baseline	-0.32%	-0.74%	-0.81%	-0.87%	-0.87%
		Adverse	-1.35%	-1.27%	-1.35%	-1.45%	-1.47%
Unemployment Rate	%	Optimal	4.36%	4.45%	4.59%	4.80%	4.91%
		Baseline	5.35%	5.39%	5.51%	5.61%	5.58%
		Adverse	6.34%	6.34%	6.45%	6.42%	6.25%

Sensitivity Scenario							
Indicator	**Unit**	**Scenario**	**2022**	**2023**	**2024**	**2025**	**2026**
Long term interest rate	%	Optimal	0.99%	1.93%	2.78%	3.57%	4.53%
		Baseline	0.73%	1.66%	2.51%	3.31%	4.27%
		Adverse	0.46%	1.39%	2.24%	3.05%	4.01%
Retail Sales	YOY %	Optimal	5.88%	5.17%	5.03%	4.75%	4.49%
		Baseline	3.14%	3.85%	3.71%	3.52%	3.39%
		Adverse	0.26%	2.43%	2.29%	2.16%	2.15%
Average Monthly Wage	YOY %	Optimal	5.49%	5.17%	5.27%	5.22%	5.02%
		Baseline	3.81%	3.90%	4.01%	4.02%	3.94%
		Adverse	2.11%	2.59%	2.69%	2.75%	2.77%
Total Disposable Income Per Person	YOY %	Optimal	8.98%	8.62%	8.74%	8.63%	8.55%
		Baseline	4.92%	4.89%	5.11%	5.15%	5.29%
		Adverse	1.04%	1.17%	1.27%	1.32%	1.45%
House Price Index	YOY % 2015=100	Optimal	8.72%	8.06%	7.94%	7.93%	7.64%
		Baseline	4.84%	4.40%	4.46%	4.56%	4.53%
		Adverse	1.22%	0.81%	0.88%	0.98%	1.04%
Interest Rate Spread (companies)	%	Optimal	3.39%	3.90%	4.19%	4.27%	4.34%
		Baseline	3.74%	4.26%	4.55%	4.61%	4.62%
		Adverse	4.07%	4.61%	4.90%	4.93%	4.90%
Central Bank Policy Rate	%	Optimal	0.15%	0.37%	0.87%	1.58%	2.28%
		Baseline	0.01%	0.22%	0.69%	1.40%	2.10%
		Adverse	-0.13%	0.07%	0.48%	1.18%	1.89%
Imports (goods and services)	YOY %	Optimal	7.90%	6.27%	5.78%	6.03%	5.69%
		Baseline	3.49%	3.71%	3.41%	3.65%	3.47%
		Adverse	-0.98%	1.21%	1.12%	1.19%	1.14%

As at 31 December 2021				
	Impact			
Lending portfolio	**Positive Change**	**Adverse Change**	**Positive Change**	**Adverse Change**
Wholesale Lending	(4.45)	4.58	(4.55%)	4.69%
Retail Lending	(11.53)	11.51	(17.06%)	17.03%
Total	**(15.98)**	**16.09**	**(9.66%)**	**9.73%**

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.

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 the 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. For the securitized notes issued by special purpose vehicles and held by the Bank, the cash flow characteristics of the notes and the underlying pool of financial assets as well as the credit risk inherent in each securitization's tranche compared to the credit risk of all of the underlying pool of financial assets, are assessed by the Group. 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.

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 above mentioned 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 collaterals 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.

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 are 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.

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, Regulation (EU) 876/2019, Regulation (EU) 873/2020 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 2021, 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 20.58 %.

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, Regulation (EU) 876/2019, Regulation (EU) 873/2020, as well as Directive 2013/36 of the European Union and Commission Implementing Regulation (EU) 2021/451. 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. 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.

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.

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.

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;
- 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 2021-2024, which envisages projected NPEs stock to reach BGN 478 million by the end of 2022, and BGN 450 million (NPE ratio below 5.0%) by the end of 2024.

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 ECL.

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.

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 tenor and 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 tenor and 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.

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 medium and low 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 inclu:
    - 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 Remedial 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

Specifically, the main responsibilities of the Credit Control Department are to:

- Continually monitor and assess the quality of Group's loan portfolio via field, desktop and thematic reviews in order to timely identify emerging risks, vulnerabilities, compliance to set credit policies and consistency in underwriting

- Monitor progress on review findings remediation activities on a regular basis and escalate non - compliance issues

- Prepare regular reports and analyses on the Bank's Retail and Corporate loan portfolio, which are presented to the local management of the Bank, as well as to Credit Control in Eurobank Ergasias SA;

- Develop overarching risk related policies, internal circulars and guides related to credit underwriting issues

- Coordinate Credit Policy Manuals formulation and regular review.

- Participate in the actualization of the credit ratings of the corporate borrowers;

- Control, analysis and assessment of the quality of Retail and Corporate loan portfolio and the stemming credit risk in Retail and Corporate banking;

- Create and maintain Preventive, Monitoring and Controlling System referring to Retail and Corporate Portfolios;

- Evaluate applications from Business Units, regarding new products, as well as approval of credit policies and procedures and amendments to them, including subsequent follow-up of their correct application;

- Oversee the appropriateness of the individual and collective assessment as per the provisions of IFRS9 and the correctness of staging allocation;

- Review the effectiveness of various forbearance measures and the accomplishment of NPE's reduction plan (budget) and propose required actions.

- Participate in preparation of key supervisory disclosures, monitor the relevant regulatory requirements in order to keep the Management abreast, collaborate with other involved areas in order to implement required amendments

- Oversee the monthly process of calculating provisions, coordinate all involved stakeholders, initiate and lead remediation actions in case of time overruns

- Participate through the Head of Credit Control Department in Troubled Assets Committee.

Credit Risk Methodology and Capital Adequacy Control Department

The Credit Risk Methodology and Capital Adequacy Control (CRM-CAC) Department reports 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;
- 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.

(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") 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.

CreditLens credit rating system operating with the MRA model 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. CreditLens 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, CreditLens 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. CreditLens uses financial data for companies operating on the Bulgarian market.

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.

The MRA rating 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.

(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.

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	
	2021	**2020**
Loans and advances to banks	505,528	516,068
Less: Impairment allowance	(166)	(162)
Loans and advances to customers::		
- Mortgages	2,571,218	2,276,319
- Consumer lending (including credit cards)	1,498,719	1,235,628
- Small Business lending	760,460	717,287
- Corporate lending	4,262,292	3,834,609
Less: Impairment allowance	(298,738)	(264,968)
Trading assets - debt securities	37,097	39,643
Derivative financial instruments	11,460	1,352

	As at 31 December	
	2021	2020
Debt securities at fair value through other comprehensive income	1,611,726	987,891
Debt securities at amortised cost	961,653	453,882
Less: Impairment allowance	(1,287)	(820)
Other financial assets (*)	16,863	22,872
Less: Impairment allowance	(1,710)	(3,468)
Credit risk exposures relating to off-balance sheet items are as follows (Note 35):		
Guarantees and Letters of credit	203,422	238,059
Loan commitments	1,704,848	1,584,961
Less: Impairment allowance	(329)	(521)
Total	**13,843,056**	**11,638,632**

(*) it refers to financial assets subject to IFRS 9 requirements, which are recognized within other assets

The above table represents the Bank's maximum credit risk exposure as at 31 December 2021 and 31 December 2020, 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 2021, the Bank's default exposures amounted to BGN 442,927 thousand (2020: BGN 535,468 thousand).

The new definition of default (DoD) for regulatory purposes introduced a new set of standards that have a significant impact on governance, data, processes, systems and credit models. The new DoD is applicable since 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 applies 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 is aligned with the new DoD, that is also the one used for internal credit risk management purposes.

'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 2021, the Bank's gross amount of non-performing exposures amounted to BGN 442,927 thousand (2020: BGN 535,468 thousand). POCI loans included in non-performing exposures are BGN 64,790 thousand (2020: BGN 83,019 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 2021, the Bank's gross amount of performing exposures amounted to BGN 8,649,762 thousand (2020: BGN 7,528,375 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 298,738 thousand, of which BGN 129,096 thousand represents the individually impaired loans provision and the remaining amount of BGN 169,643 thousand represents the portfolio provision. During 2021, the Bank's total net loans and advances increased by 13%. 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 2021 and 31 December

As at 31 December 2021

	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	**4,106,244**	**461,019**	**93,656**	**156,755**	**4,850**	**7,873**	**4,830,397**	**(29,453)**	(34,178)	(69,812)	**(93,930)**	**(2,595)**	**(1,536)**	**4,598,893**	**3,235,832**
- Mortgage	2,284,363	155,042	46,956	73,680	3,964	7,213	2,571,218	(2,379)	(9,088)	(34,731)	(38,084)	(1,863)	(1,090)	2,483,983	-
Value of collateral	*2,264,578*	*141,110*	*11,864*	*35,102*	*2,095*	*5,735*	-	-	-	-	-	-	-	-	*2,460,484*
- Consumer lending	1,258,751	176,632	-	63,171	-	165	1,498,719	(19,241)	(17,519)	-	(40,981)	-	(121)	1,420,857	-
Value of collateral	56,340	2,466	-	162	-	-	-	-	-	-	-	-	-		58,968
- Small business	563,130	129,345	46,700	19,904	886	495	760,460	(7,833)	(7,571)	(35,081)	(14,865)	(732)	(325)	694,053	
Value of collateral	*587,899*	*112,676*	*11,476*	*4,005*	*154*	*170*	-	-	-	-	-	-	-	-	*716,380*
Corporate lending	3,546,133	532,800	123,278	4,448	54,524	1,109	4,262,292	(5,672)	(1,857)	(48,907)	(2,447)	(7,781)	(570)	4,195,058	
Value of collateral	*2,781,278*	*475,710*	*66,879*	*1,612*	*46,968*	*528*	-	-	-	-	-	-	-	-	*3,372,975*
Total	7,652,377	993,819	216,934	161,203	59,374	8,982	9,092,689	(35,125)	(36,035)	(118,719)	(96,377)	(10,376)	(2,106)	8,793,951	
Total Value of collateral	***5,690,095***	***731,962***	***90,219***	***40,881***	***49,217***	***6,433***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	***6,608,807***
Credit related commitments	1,775,408	130,307	1,975	580	-	-	1,908,270	(203)	(5)	(120)	(1)	-	-	-	-
Loan commitments	1,589,163	114,340	767	578	-	-	1,704,848	-	-	-	-	-	-	-	-
Financial guarantee contracts and other commitments	186,245	15,967	1,208	2	-	-	203,422	(203)	(5)	(120)	(1)	-	-	-	-
Value of collateral	*115,906*	*14,582*	*109*	-	-	-	-	-	-	-	-	-	-	-	*130,597*

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 assessed	Collect-ively assessed		
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)	-	-	-	-
Value of collateral	*139,895*	*3,232*	*397*	-	-	-	-	-	-	-	-	-	-	-	*143,524*

2020: 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 2021						
		Non-impaired		**Credit-impaired**	POCI Lifetime ECL credit-impaired - POCI	
	Internal credit rating	12-month ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3		Total gross carrying amount
Retail Lending						
Mortgage	PD<2.5%	2,253,584	319	-	-	**2,253,903**
	2.5%<=PD<4%	-	708	-	-	**708**
	4%<=PD<10%	20,752	7,587	-	-	**28,339**
	10%<=PD<16%	-	13,878	-	-	**13,878**
	16%<=PD<99.99%	10,027	132,550	-	-	**142,577**
	100%	-	-	120,636	11,177	**131,813**
Consumer	PD<2.5%	143,713	3,192	-	-	**146,905**
	2.5%<=PD<4%	461,935	909	-	-	**462,844**
	4%<=PD<10%	652,885	7,843	-	-	**660,728**
	10%<=PD<16%	-	4,352	-	-	**4,352**
	16%<=PD<99.99%	217	160,337	-	-	**160,554**
	100%	-	-	63,171	165	**63,336**
Small business	PD<2.5%	7,015	1,086	-	-	**8,101**
	2.5%<=PD<4%	20,957	503	-	-	**21,460**
	4%<=PD<10%	533,682	1,983	-	-	**535,665**
	10%<=PD<16%	-	6,630	-	-	**6,630**
	16%<=PD<99.99%	1,477	119,142	-	-	**120,619**
	100%	-	-	66,604	1,381	**67,985**
Corporate Lending						
	Strong	2,166,161	99,544	-	-	**2,265,705**
	Satisfactory	1,155,324	261,367	-	-	**1,416,691**
	Watch list	224,648	171,889	-	-	**396,537**
	Impaired	-	-	127,726	55,633	**183,359**
Total		**7,652,377**	**993,819**	**378,137**	**68,356**	**9,092,689**

31 December 2020						
		Non-impaired		Credit-impaired	POCI Lifetime ECL credit-impaired - POCI	
	Internal credit rating	12-month ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3		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**

31 December 2021					
		Non-impaired		Credit-impaired	
	Internal credit rating	12-month ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3	Total nominal amount
Retail Lending					
Loan Commitments	PD<2.5%	463,467	2,320	-	**465,787**
	2.5%<=PD<4%	12,175	712	-	**12,887**
	4%<=PD<10%	134,195	14,989	-	**149,184**
	10%<=PD<16%	-	,200	-	**200**
	16%<=PD<99.99%	-	6,491	-	**6,491**
	100%	-	-	565	**565**
Financial Guarantee contracts and Other Commitments	PD<2.5%	14,481	-	-	**14,481**
	2.5%<=PD<4%	-	-	-	**-**
	4%<=PD<10%	-		-	**-**
	10%<=PD<16%	-	-	-	**-**
	16%<=PD<99.99%	-	-	-	**-**
	100%	-	-	2	**2**
Wholesale Lending					
Loan Commitments	Strong	703,489	69,460	-	**772,949**
	Satisfactory	255,260	15,248	-	**270,508**
	Watch list	20,577	4,920	-	**25,497**
	Impaired	-	-	780	**780**
Financial Guarantee contracts and Other Commitments	Strong	110,604	2065	-	**112,669**
	Satisfactory	56,741	13,370	-	**70,111**
	Watch list	4,419	532	-	**4,951**
	Impaired	-	-	1,208	**1,208**
Total		**1,775,408**	**130,307**	**2,555**	**1,908,270**

31 December 2020					
		Non-impaired		Credit-impaired	
	Internal credit rating	12-month ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3	Total nominal amount
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	-	**112,669**
	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**

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 01.01.2021 to 31.12.2021 and 01.01.2020 to 31.12.2020:

31 December 2021																	
	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	**2,752,715**	**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**
New loans and advances originated or purchased	883,629	-	-	-	594,945	-	-		451,656	-	-	-	214,731	-	-	-	**2,144,961**
Arising from merger	-	-	-	-	-	-	-		-	-	-	-	-	-	-	-	-
Transfer between stages:																	
-to 12-month ECL	*555,474*	*(554,633)*	*(841)*	-	*75,049*	*(65,785)*	*(9,264)*	-	*45,057*	*(43,120)*	*(1,938)*	-	*33,527*	*(30,360)*	*(3,166)*	-	-
-to lifetime ECL	*(262,758)*	*264,095*	*(1,338)*	-	*(66,264)*	*83,684*	*(17,420)*	-	*(89,372)*	*94,645*	*(5,272)*	-	*(63,742)*	*65,778*	*(2,036)-*	-	-
-to lifetime ECL credit-impaired loans	*(27,099)*	*(6,173)*	*33,272*	-	*(3,852)*	*(17,934)*	*21,786*	-	*(12,006)*	*(22,088)*	*34,094*	-	*(3,189)*	*(17,544)*	*20,733*	-	-
Loans and advances derecognised	-	-	(10,159)	-	-	-	(3,164)	-	-	-	(556)	-	-	-	(711)	-	**(14,590)**
Amounts written-off	-	-	(16,256)	-	-	-	(4,455)	-	-	-	(12,657)	-	-	-	(14,634)	-	**(48,002)**
Repayments	(371,011)	(42,107)	(14,624)	-	(247,789)	(22,033)	(22,040)	-	(155,380)	(19,879)	(4,993)	-	(122,962)	(21,396)	(13,732)	-	(1,057,946)
Foreign exchange differences and other movements	15,183	17,473	(23,439)	(11,005)	(16,613)	19,484	309	(3,745)	(27,633)	29,952	2,816	(235)	(33,852)	41,249	(4,627)	(894)	4,423
Gross carrying amount at 31 December	**3,546,133**	**532,800**	**127,726**	**55,633**	**2,284,363**	**155,042**	**120,636**	**11,177**	**1,258,751**	**176,632**	**63,171**	**165**	**563,130**	**129,345**	**66,604**	**1,381**	**9,092,689**

Impairment allowance	(5,672)	(1,857)	(51,354)	(8,351)	(2,379)	(9,088)	(72,815)	(2,953)	(19,241)	(17,519)	(40,981)	(121)	(7,833)	(7,571)	(49,946)	(1,057)	(298,738)
Carrying amount at 31 December	**3,540,461**	**530,943**	**76,372**	**47,282**	**2,281,984**	**145,954**	**47,821**	**8,224**	**1,239,510**	**159,113**	**22,190**	**44**	**555,297**	**121,774**	**16,658**	**324**	**8,793,951**

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)*	-	-
-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**	**1654**	**7,798,875**

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 2021									
	Retail lending								
	Mortgage	POCI	Consumer	POCI	Small business	POCI	Corporate lending	POCI	(Lifetime ECL credit-impaired)
up to 90 days	44,909	6,003	20,009	47	23,996	354	82,746	25,126	**203,190**
90 to 179 days	5,273	190	6,501	-	4,762	-	1,019	619	**18,364**
180 to 360 days	5,302	119	13,653	2	6,598	1	20,546	5	**46,226**
more than 360 days	65,152	4,865	23,008	116	31,248	1,026	23,415	29,883	**178,713**
Gross carrying amount	**120,636**	**11,177**	**63,171**	**165**	**66,604**	**1,381**	**127,726**	**55,633**	**446,493**
Impairment Allowance	(72,815)	(2,953)	(40,981)	(121)	(49,946)	(1,057)	(51,354)	(8,351)	**(227,578)**
Carrying amount	**47,821**	**8,224**	**22,190**	**44**	**16,658**	**324**	**76,372**	**47,282**	**218,915**
Value of collateral	**46,966**	**7,830**	**162**	**-**	**15,482**	**324**	**68,491**	**47,496**	**186,751**

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**

(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	
	2021	**2020**
Mortgages		
Less than 50%	485,765	436,734
50%-70%	714,338	617,077
71%-80%	659,222	533,918
81%-90%	461,667	387,465
91%-100%	43,529	54,844
101%-120%	99,529	105,680
121%-150%	48,524	64,148
Greater than 150%	58,644	76,453
Total exposure	**2,571,218**	**2,276,319**
Average LTV	**58.20%**	**59.20%**

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**
	31.12.2021	**31.12.2020**	
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

The breakdown of collateral and guarantees is presented below:

As at 31 December 2021					
	Value of collateral received				
	Real Estate	Financial	Other Collateral	Total	Guarantee received
Retail Lending	2,753,594	158,076	324,162	3,235,832	10,019
Wholesale Lending	1,365,871	532,996	1,474,108	3,372,975	120,578
Total	**4,119,465**	**691,072**	**1,798,270**	**6,608,807**	**130,597**

Към 31 декември 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**

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 2021 and 2020:

Nature of assets	2021	2020
Commercial property and other moveable assets	8,008	11,513
Residential property	3,116	3,106
Land	994	1,028
Total	**12,118**	**15,647**

Reconciliation of Level 3 movement:	2021	2020
Balance at 1 January	**15,647**	**11,999**
Additional	603	4,994
Sales	(3,892)	(570)
Write offs	-	(76)
Impairment	(240)	(700)
Balance at 31 December	**12,118**	**15,647**

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Class property	Fair value 31/12/2021 (BGN th)	Valuation technique	Input	Range (BGN) (weighted average) 2021	Range (BGN) (weighted average) 2020	Connection between the unobservable input and FV
Land	994	Market comparison approach	price per m^2	0.76 – 1160.45 (15.12)	0.51 – 853,17 (18.81)	A significant increase in price per m^2 would result in a higher fair value
Residential	3,116	Market comparison approach	price per m^2	1.00-2112.00(166.03)	1.51 – 1282.77(155.23)	A significant increase in price per m^2 would result in a higher fair value
Mixed	7,953	Market comparison approach	price per m^2	32.98-1867.82 (256.13)	35.11-1549.02 (245.08)	A significant increase in price per m^2 would result in a higher fair value
		Income approach	price per m^2	1.90-7.49 (3.58)	2.72-10.50 (7.03)	A significant increase in price per m^2 would result in a higher fair value
		Cost approach	price per m^2	6.59-224.11 (122.73)	6.59-180.40 (93.97)	A significant increase in price per m^2 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.

31 December 2021																				
	Bulgaria					Greece					Rest of Europe					Other countries				
	Gross carrying/nominal amount																			
	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	Impairment allowance	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	Impairment allowance	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	Impairment allowance	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	Impairment allowance
Retail Lending	**4,071,155**	**458,245**	**246,347**	**12,475**	**(228,448)**	**5,454**	**460**	**205**	**61**	**(256)**	**22,712**	**1,906**	**2,507**	**-**	**(1,442)**	**6,923**	**408**	**1,352**	**187**	**(1,358)**
Mortgage	2,262,382	153,704	117,595	10,956	(85,260)	3,284	128		34	(46)	13,553	1,026	1,780	-	(699)	5,144	184	1,261	187	(1,230)
Consumer	1,245,679	175,200	62,148	138	(76,781)	2,170	332	205	27	(210)	9,142	880	727	-	(743)	1,760	220	91	-	(128)
Small business	563,094	129,341	66,604	1,381	(66,407)	-	-	-	-	-	17	-	-	-	-	19	4	-	-	-
Wholesale Lending	**3,325,765**	**528,386**	**127,726**	**55,633**	**(67,129)**	**-**	**-**	**-**	**-**	**-**	**220,368**	**-**	**-**	**-**	**(87)**	**-**	**4,414**	**-**	**-**	**(18)**
Commerce and services	89,581	3,464	17,164	68	(2,931)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	1,027,285	58,419	40,224	2,606	(19,243)	-	-	-	-	-	15,504	-	-	-	(3)		-	-	-	-
Construction	36,822	4,859	-	-	(34)	-	-	-	-	-	59,117	-	-	-	(62)		-	-	-	-
Tourism	52,757	620	530	-	(93)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Energy	246,361	41,369	12,568	26,084	(8,519)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	1,872,959	419,655	57,240	26,875	(36,309)	-	-	-			145,747	-	-	-	(22)	-	4,414	-	-	(18)
Total	**7,396,920**	**986,631**	**374,073**	**68,108**	**(295,577)**	**5,454**	**460**	**205**	**61**	**(256)**	**243,080**	**1,906**	**2,507**	**-**	**(1,529)**	**6,923**	**4,822**	**1,352**	**187**	**(1,376)**
Credit related commitments	**1,699,773**	**130,139**	**2,551**	**-**	**(329)**	**4,182**	**48**	**4**	**-**	**-**	**70,597**	**81**	**-**	**-**	**-**	**856**	**39**	**-**	**-**	**-**
Loan commitments	1,513,528	114,172	742	599	-	4,182	48	-	4	-	70,597	81	-	-	-	856	39	-	-	-
Financial guarantee contracts and other commitments	186,245	15,967	1,210	-	(329)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

31 December 2020																				
	Bulgaria					Greece					Rest of Europe					Other countries				
	Gross carrying/nominal amount																			
	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	Impairment allowance	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	Impairment allowance	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	Impairment allowance	12-month ECL-Stage 1	Lifetime ECL-Stage 2	Lifetime ECL credit-impaired-Stage 3	POCI	Impairment 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	-	-	-	-	-	-	-	-	-	-	-	-	-	-

(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.

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.

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:	**2021**	**2020**
Loan term extension	**62,007**	**180,934**
Reduced payment below interest owed	10,585	22,240
Interest rate reduction	33,026	142,440
Reduced payment above interest owed	17,873	17,644
Arrears repayment plan	11	215
Interest only	18,008	18,230
Grace period	103,359	55,149
Other	-	198
Total gross carrying amount	**244,869**	**437,050**
Less: cumulative impairment allowance	(51,288)	(61,221)
Total carrying amount	**193,581**	**375,829**

The following tables present a summary of the credit quality of forborne loans and advances to customers:

As at 31 December 2021	Total loans and advances	Forborne loans and advances	Forborne loans and advances
Gross carrying amounts:			
12-month ECL	7,652,377	-	-
Lifetime ECL non credit-impaired	993,819	114,103	11%
Lifetime ECL credit-impaired	446,493	130,766	29%
Total Gross Amount	**9,092,689**	**244,869**	**3%**
Cumulative ECL Loss allowance :			
12-month ECL allowance	**(35,125)**	**-**	**-**
Lifetime ECL (not credit-impaired) allowance	**(36,035)**	**(7,116)**	**-**
Lifetime ECL (credit-impaired) allowance of which:	**(227,578)**	**(44,172)**	**-**
- Individually assessed	**(129,095)**	**(28,791)**	**-**
- Collectively assessed	**(98,483)**	**(15,381)**	**-**
Total carrying amount	**8,793,951**	**193,581**	**2%**
Collateral received	**6,608,807**	**143,973**	**-**

As at 31 December 2020	Total loans and advances	Forborne loans and advances	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**	**-**

The following table presents the movement of forborne loans and advances:

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**
Gross carrying amount at 1 January 2021	**437,050**
Forbearance measures in the year	212,373
Repayment of loans	(73,234)
Write-offs of forborne loans	(641)
Loans and advances that exited forbearance status	(243,783)
Other	(86,896)
Less cumulative impairment allowance	(51,288)
Carrying amount at 31 December 2021	**193,581**

The following table presents the Bank's exposure to forborne loans and advances by product line:

	As at 31 December	
	2021	**2020**
Retail Lending	**167,276**	**175,039**
- Mortgage	72,752	96,174
- Consumer	52,913	36,300
- Small business	41,611	42,565
Wholesale Lending	**77,593**	**262,011**
Total gross carrying amount	**244,869**	**437,050**
Less cumulative impairment allowance	(51,288)	(61,221)
Less cumulative impairment allowance	**193,581**	**375,829**

The following table presents the Bank's exposure to forborne loans and advances by geographical region:

	As at 31 December	
	2021	**2020**
Bulgaria	243,155	436,700
Greece	43	170
Rest of Europe	1,482	174
Other countries	189	6
Total gross carrying amount	244,869	437,050
Less cumulative impairment allowance	(51,288)	(61,221)
Total carrying amount	193,581	375,829

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:

	As at 31 December	
	2021	**2020**
Modified loans during the year		
Gross carrying amount at 31 December	130,766	281,937
Modification (loss)	(977)	(2,722)
Modified loans since initial recognition		
Gross carrying amount at 31 December Modification (loss) Modified loans since initial recognition	67,712	127,691

(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 2021 Lending Expoures subject to:		
	***Moratoria**	**Government support measures**
Consumer lending (including credit cards)	75,240	25,530
Small Business lending	106,821	34,409
Mortgages	156,359	-
Corporate lending	726,059	121,225
Gross carrying amount	**1,064,479**	**181,164**
Less Allowance for impairment losses	**(50,153)**	**(2,915)**
Net carrying amount	**1,014,326**	**178,249**

** The Private moratoria measure for deferring customers' obligations adopted by the Bulgarian banks in April 2020 expired on 31 December 2021.*

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**

Government support measures

COVID-19 outbreak and its effect on the worldwide and Bulgarian economy continued to be one of the major points of concern for governments, regulators and the banking industry.

The relief measures introduced in 2020 by the Government, Bulgarian National Bank and the Bulgarian banks to support the economy and help the companies and households were extended or enhanced during 2021 year:

- Private moratoria for companies and households to defer payments of interest and/or principal for up to 6 months allowed customers to apply up to 31.03.2021 and defer payments for up to 9 months /until 31.12.2021/; all moratoria loans are already in post-relief period and only 5% are 90+ DPD.

- Two programs by the Bulgarian Development Bank for providing guarantees to the Bulgarian banks for loans to companies and individuals affected by the crisis have increased their limits and the Bank took its fair share in the increase. Individuals limit allocated to the Bank is almost fully utilised and Business limit is utilised at 60% as of YE.

- Fund of Funds guarantee scheme limit allocated to the Bank was fully utilised during the year;

- Additional guarantee programs were launched during 2020 year and utilised during 2021: EIF Jeremie, EIF COSME, NGF LGF, NGF Guarantee PRSR;

- Two new programs are initiated during 2021 and will start in Jan'22: EIF EGF Capped and Uncapped.

- The temporary reduction of the VAT (from 20% to 9%) for several sectors was extended until the end of 2022 - Food and drinks (including wine and beer) served in eateries (though not for take away), Books, Baby food and baby diapers, Tour agencies, Sport venues (gyms).

- The main Government measure for supporting the labor market (60/40) was extended to 2022. It is expected that in the first two months it will be used by 75,000 people and will cost €60m per month.

- Pension increase in the range 8%- 12% entered into force at the end of 2021, where the additional €30 monthly payment per pensioner will be kept until the end of the pandemic. The government set aside €425m for the first 6 months of 2022.

- Compensation for the business for the high energy prices (up to 30% of the price, but max BGN 125 for MWh) for which the government set aside €430m.

Bulgarian National Bank imposed restrictions were either maintained or increased:

- On 24 February 2022 BNB decided as of 1 April 2022 to discontinue the measure on the limit of banks' foreign exposures introduced as part of the package of measures addressing the crisis in 2020 and prolonged in 2021;

- Countercyclical capital buffer will remain at 0.5% until 3Q'22 and then will increase to 1% for 4Q'22 and to 1.5% effective as of 01/01/23.

Additionally, the following regulation changes took place:

- New Definition of default guideline entered into force on 01 January 2021 and was implemented accordingly by the Bank

- New EBA guideline on loan origination and monitoring, applicable as of 30 June 2021 for newly originated exposures and as of 30 June 2022 for renegotiated exposures existing as of 30 June 2021

After the initial Covid-19 outburst shock and the imposed several lockdowns in 2020 and 1Q 2021 and as the vaccinations program progressed throughout 2021, the general market sentiment has improved. The introduction of Covid-19 green certificates supported partial easing of travel freeze and replaced full lockdowns with milder measures such as capacity restrictions in hotels/restaurants/etc.

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 2021 Non-impaired						
Rating	**Trading securities**	**Debt securities at FVOCI**	**Debt securities at AC**	**Loans and advances to banks**	**Derivatives**	**Total**
AA- to AA+	-	184,406	414,136	9,640	-	608,182
A- to A+	-	363,164	19,885	101,504	-	484,553
BBB- to BBB+	37,097	917,477	-	204	-	954,778
BB- to BB+	-	146,679	40,788	-	-	187,467
Lower than BB-	-	-	13,572	296,187	6,046	315,805
Unrated	-	-	471,985	97,827	5,414	575,226
Total	**37,097**	**1,611,726**	**960,366**	**505,362**	**11,460**	**3,126,011**

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**

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.

	Bulgaria	Greece	Rest of Europe*	Other countries	Total
Loans and advances to banks	-	296,188	142,704	66,470	505,362
Trading assets – debt securities	37,097	-	-	-	37,097
Debt securities at fair value through other comprehensive income	484,855	146,679	788,249	191,943	1,611,726
Derivative financial instruments	5,414	6,046	-	-	11,460
Debt securities at amortised cost	-	133,350	827,016	-	960,366
31 December 2021	**527,366**	**582,263**	**1,757,969**	**258,413**	**3,126,011**

**The five largest exposures of debt securities have issuers from the following countries: Ireland, Italy, Poland, France, Romania.*

	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**

**The five largest exposures of debt securities have issuers from the following countries: Ireland, Italy, Poland, France, Romania.*

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 (a)	Gross amounts set off in BS (b)	Net amount after off setting in BS (c) = (a) - (b)	Financial or cash collateral received or given either recognised on BS or not, not offset on BS (d)	Net amount of exposure (c) - (d)
Assets as of 31 December 2021					
Derivative assets	6,046	-	6,046	6,046	-
Liabilities as of 31 December 2021					
Derivative liabilities	(8,485)	-	(8,485)	13,029	**4,544**

	Gross amounts before offsetting in BS (a)	Gross amounts set off in BS (b)	Net amount after off setting in BS (c) = (a) - (b)	Financial or cash collateral received or given either recognised on BS or not, not offset on BS (d)	Net amount of exposure (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**

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

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.

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.

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.

31 December 2021				
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate +100 bps parallel shift for all currencies	**(55,944)**	(1,442)	(36,913)	(17,589)
Equities / Equity Indices / Mutual Funds -10% equity price drop across the board	**(127)**	(127)	-	-
Foreign exchange -10% depreciation of local currency	**346**	346	-	-

31 December 2021				
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate +100 bps parallel shift for all currencies	**(38,126)**	(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	-	-

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 2021			
	Carrying amount	**Trading portfolios**	**Non-trading portfolios**
Assets subject to Market risk			
Cash and balances with Central Bank	2,139,549	-	2,139,549
Trading assets	38,369	38,369	-
Derivative financial instruments	11,460	11,460	-
Loans and advances to banks	505,362	-	505,362
Loans and advances to customers	8,793,951	-	8,793,951
Investment securities	2,635,788	-	2,635,788
Other financial assets	15,153	-	15,153
Total assets subject to Market risk	**14,139,632**	**49,829**	**14,089,803**

Market risk measure As at 31 December 2021			
	Carrying amount	Trading portfolios	Non-trading portfolios
Liabilities subject to Market risk			
Derivative financial instruments	9,139	6,310	2,829
Deposits from banks	9,535	-	9,535
Due to customers	12,313,508	-	12,313,508
Other borrowed funds	166,578	-	166,578
Other financial liabilities	168,623	-	168,623
Total liabilities subject to Market risk	**12,667,383**	**6,310**	**12,661,073**

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 borrowed 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**

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 for all of the traded equities portfolio.

Foreign exchange risk concentration

The following table presents the Bank's exposure to foreign exchange risk as at 31 December 2021 and 2020:

As at 31 December 2021						
Assets	**BGN**	**EUR**	**USD**	**CHF**	**OTHER**	**Total**
Cash and balances with the Central Bank	1,342,287	786,736	5,434	1,747	3,345	**2,139,549**
Loans and advances to banks	-	385,502	67,766	9,283	42,811	**505,362**
Trading assets	38,369	-	-	-	-	**38,369**
Derivative financial instruments	206	7,992	2,670	-	592	**11,460**
Loans and advances to customers	6,409,003	2,290,244	83,027	11,674	3	**8,793,951**
Investment securities	109,575	2,128,293	397,920	-	-	**2,635,788**
Other financial assets	8,336	4,110	2,701	1	5	**15,153**
Total financial assets	**7,907,776**	**5,602,877**	**559,518**	**22,705**	**46,756**	**14,139,632**
Liabilities						
Deposits from banks	7,061	1,377	273	209	615	**9,535**
Derivative financial instruments	48	8,515	576	-	-	**9,139**
Due to customers	7,645,856	3,759,941	808,504	21,942	77,265	**12,313,508**
Other borrowed funds	19,813	146,765	-	-	-	**166,578**
Other financial liabilities	70,052	86,283	11,779	444	65	**168,623**
Total financial liabilities	**7,742,830**	**4,002,881**	**821,132**	**22,595**	**77,945**	**12,667,383**
Off balance sheet Credit related commitments	**1,627,690**	**247,750**	**32,830**	**-**	**-**	**1,908,270**

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**

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.

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;
- Liquidity 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 2021 and 2020. Liabilities without contractual maturities (sight and saving deposits) are presented in "less than 1 month" time bucket.

As at 31 December 2021							
	Carrying amount	**Gross nominal inflow/ (outflow)**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Financial Assets							
Non-derivative assets	***14,128,172***	***15,503,588***	***5,045,089***	***500,667***	***1,126,498***	***4,880,601***	***3,950,733***
Cash and balances with Central Bank	2,139,549	2,139,549	2,139,549	-	-	-	-
Loans and advances to banks	505,362	506,509	408,235	-	98,274	-	-
Loans and advances to customers	8,793,951	10,064,602	2,273,051	226,277	936,743	3,556,998	3,071,533
Financial assets held for trading	38,369	38,387	1,287	18	33	36,052	997
Investment securities	2,635,788	2,739,388	207,814	274,372	91,448	1,287,551	878,203
Other financial assets	15,153	15,153	15,153	-	-	-	-

Derivative financial instruments	***11,460***	***1,382,331***	***1,030,330***	***301,631***	***1,898***	***27,473***	***20,999***
Inflow from net settled	-	51,261	-	891	1,898	27,473	20,999
Inflow from gross settled	-	1,331,070	1,030,330	300,740	-	-	-
Total assets (contractual maturity)	**14,139,632**	**16,885,919**	**6,075,419**	**802,298**	**1,128,396**	**4,908,074**	**3,971,732**
Financial liabilities							
Non-derivative liabilities	***12,737,358***	***(12,746,983)***	***(7,963,609)***	***(909,816)***	***(3,378,243)***	***(466,712)***	***(28,603)***
Due to other banks	9,535	(9,535)	(9,535)	-	-	-	-
Due to customers	12,313,508	(12,314,068)	(7,784,322)	(906,798)	(3,360,573)	(262,375)	-
Other borrowed funds	166,578	(175,409)	-	(767)	(7,934)	(166,708)	-
Lease liabilities	79,114	(79,348)	(1,129)	(2,251)	(9,736)	(37,629)	(28,603)
Other financial liabilities	168,623	(168,623)	(168,623)	-	-	-	-
Derivative financial instruments	***9,139***	***(1,378,788)***	***(1,031,070)***	***(302,270)***	***(2,751)***	***(25,733)***	***(16,964)***
(Outflow) from net settled	-	(46,829)	-	(1,381)	(2,751)	(25,733)	(16,964)
(Outflow) from gross settled	-	(1,331,959)	(1,031,070)	(300,889)	-	-	-
Total liabilities (contractual maturity)	**12,746,497**	**(14,125,771)**	**(8,994,679)**	**(1,212,086)**	**(3,380,994)**	**(492,445)**	**(45,567)**

As at 31 December 2021 - 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	(1,704,848)	(256,520)	(232,965)	(807,640)	(389,760)	(17,963)
Guarantees and other commitments	(203,422)	(10,942)	(6,890)	(6,067)	(150,909)	(28,614)
Total amount	**(1,908,270)**	**(267,462)**	**(239,855)**	**(813,707)**	**(540,669)**	**(46,577)**

As at 31 December 2020							
	Carrying amount	**Gross nominal inflow/ (outflow)**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Financial Assets							
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**
Financial liabilities							
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 commitments	(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)**

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 guarantee can be called.

Based on the experience of the bank Cash flows from financial guarantees and loan commitments are presented by maturity.

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 2021					
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**	**Total Carrying Amount**
Financial assets					
Loans and advances to customers					
- Corporate	-	-	4,064,212	4,064,212	4,195,058
- SBB	-	-	672,629	672,629	694,053
- Consumer	-	-	1,448,372	1,448,372	1,420,857
- Mortgage	-	-	2,424,779	2,424,779	2,483,983
Total			**8,609,992**	**8,609,992**	**8,793,951**
Financial liabilities					
Other borrowed funds		**166,578**	**-**	**166,578**	**166,578**

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**

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:

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 2021 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.

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 2021				
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Trading assets				
-Debt securities	37,097	-	-	**37,097**
-Equity securities	1,272	-	-	**1,272**
Derivative financial instruments	-	11,460	-	**11,460**
Investment securities				
- Investment securities at FVOCI	1,597,917	-	-	**1,597,917**
- Investment securities at FVTPL	-	46,123	17,573	**63,696**
Total financial assets	**1,636,286**	**57,583**	**17,573**	**1,711,442**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	9,139	-	**9,139**
Total financial liabilities	**-**	**9,139**	**-**	**9,139**

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**

Reconciliation of Level 3 fair value measurement	2021	2020
Balance at 1 January	15,605	19,556
Transfers into Level 3	-	99
Total (loss)/ gain for the period included in profit or loss	1,969	(4,050)
Balance at 31 December	**17,574**	**15,605**

The realized gain/ loss for Level 3 instruments is recognized in "Gain less losses 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 Group Market and 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.

6 Net interest income

	2021	2020
Loans and advances to customers	352,904	349,129
Loans and advances to banks	4,095	6,236
Investment securities	14,183	9,501
Interest income calculated using the effective interest method	**371,182**	**364,866**
Derivative instruments	5,578	8,483
Trading securities	481	376
Interest income on lease receivables	892	799
Other Interest income	6,951	9,658
Total interest income	**378,133**	**374,524**

The unwinding of the discount of the ECL allowance (Note 18) amounting to BGN 6,457 thousand (2020: BGN 12,613 thousand) is included in interest income on impaired loans and advances to customers. Interest income includes BGN 16,944 thousand (2020: BGN 21,422 thousand) interest income, recognised on impaired loans to customers, out of which BGN 1,777 thousand (2020: BGN 3,201 thousand) remain due by the customer as of year-end.

Interest income includes BGN 19,071 thousand (2020: BGN 19,095 thousand) income from insurers related to insurance premiums paid by borrowers as an integral part of loan deal origination.

Interest expense and similar charges	**2021**	**2020**
Deposits from customers	2,751	6,478
Hedging instruments	2,616	2,620
Deposits from banks	5,312	3,055
Other borrowed funds	**324**	**443**
Operating lease	67	63
Total interest expense and similar charges	**11,070**	**12,659**
Total Net interest income	**367,063**	**361,865**

7 Net fee and commission income

Fees and commission income	2021	2020
Money transfers	36,046	30,112
Account maintenance	37,037	34,251
Foreign exchange operations	19,468	16,051
Loans' fees and commissions	12,422	11,481
Receipts from sales of services	23,509	13,821
Cash operations	13,348	10,685
Management, brokerage and securities trading	2,641	2,325
Other fees	830	1,057
Total fees and commission income from contracts with customers	**145,301**	**119,783**
Financial guarantee contracts and loan commitments	3,178	3,134
Total fees and commission income	**148,479**	**122,917**

Fee and commission expense	2021	2020
Loans related fees	2,767	2,173
Transactions processing	18,615	14,199
Cash transactions and correspondent accounts	1,018	959
Other fees	1,354	1,572
Management, brokerage and securities trading	824	615
Total fees and commission expense	**24,578**	**19,518**
Total Net fees and commission income	**123,901**	**103,399**

8 Other operating income, net

	2021	2020
Net gain arising from derecognition of financial assets	2,591	2,550
Net (loss) from Modification of non-forborne loans	(325)	(1,495)
Net gain from non-current fixed assets	545	107
Rental income	174	215
Other (expenses)/ income (Operating Leases IFRS 16)	(27)	44
Investment and own property impairment	(704)	(1,955)
Income from renegotiated rental agreements	-	1,852
Total	**2,254**	**1,318**

The recognized income from negotiated rental agreements for 2020 (BGN 1,852 thousand) is a result of the actions taken by the Bank in view of the Covid-19 outbreak consequences. In 2021 there is no such agreements for renegotiations related to Covid-19.

9 Net trading income		
	2021	**2020**
Net results from derivative instruments	486	436
of which:		
(Losses) on derivative fin. Instruments – Hedging (Note 25)	*(40)*	*18*
Gains on derivative fin. instruments - Non-Hedging	*526*	*418*
Net trading income	**486**	**436**

10 Other operating expenses		
	2021	**2020**
Staff costs (Note 11)	115,400	103,332
Depreciation of PPE and ROA (Note 21)	21,518	23,393
Repairs and maintenance	14,077	12,219
External services	10,718	8,729
Amortisation of intangible assets (Note 22)	9,089	8,607
Software costs	11,866	9,393
Advertising and marketing	6,914	5,848
Security	7,118	7,049
Other operating costs	6,729	4,612
Operating lease rentals	1,146	1,667
Materials and utilities	1,048	1,809
Travel and accommodation	109	279
Insurance	760	820
Communication	686	726
Total	**207,178**	**188,483**

The amounts accrued in 2021 for the services provided by the registered auditors for statutory joint independent financial audit are as follows: for KPMG Audit OOD - BGN 352 thousand excluding VAT, for Baker Tilly Klitou and Partners OOD - BGN 37 thousand excluding VAT. In 2021 the Bank was charged with amounts for other non-statutory audit services provided by KPMG Audit OOD at a total amount of BGN 134 thousand excluding VAT and by Baker Tilly Klitou – BGN 2 thousand excluding VAT.

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.

11 Staff costs

	2021	2020
Wages and salaries	96,159	83,916
Social security costs	6,166	6,094
Pension costs – defined contribution plans	10,370	10,468
Pension costs / (income) – defined benefit plans (Note 30)	557	887
Other	2,148	1,967
Total staff cost	**115,400**	**103,332**

12 Impairment charge for credit losses

	2021	2020
Loans and advances to customers (Note 18)	(83,375)	(82,719)
Credit commitments (charge) / release of impairment	197	(9)
Other impairment (losses) / release	(1,207)	(675)
Total	**(84,385)**	**(83,403)**

Other impairment release/losses include the ECL charge during 2021 and 2020 as per IFRS 9 regarding financial assets other than loans and advances to customers (securities, placements, etc.)

13 Income tax expense

	2021	2020
Deferred tax (benefit) / expense (Note 28)	1,779	4,707
Current income tax	17,287	12,436
Total	**19,066**	**17,143**

Tax is payable at an actual rate of 10% (2020: 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:

	2021		2020	
	Tax rate	Amount	Tax rate	Amount
Profit before income tax		**188,292**		**169,819**
Tax calculated at the basic tax rate	10%	18,829	10.0%	16,981
Tax effect of:				
Non-tax deductible expenses	0,7%	1,290	1.6%	2,763
Non-taxable income	(1.3%)	(2,541)	(1.6%)	(2,731)
Loss / (gain) recognized in OCI	0,8%	1,488	0.1%	130
Income tax expense	**10.2%**	**19,066**	**10.1%**	**17,143**

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 – 31.12.2012 with respect to CITA.

14 Income tax effects relating to comprehensive income

	Year ended 31 December 2021			Year ended 31 December 2020		
	Before tax amount	Tax (expense)/ benefit	Net of tax amount	Before tax amount	Tax (expense)/ benefit	Net of tax amount
Investment Securities at FVOCI	(14,930)	1,493	(13,437)	(1,251)	125	(1,126)
Change in FV of property, plant and equipment	3,746	(375)	3,371	1,013	(101)	912
Remeasurements of retirement benefit obligation	4,812	(481)	4,331	503	(50)	453
Total	**(6,372)**	**637**	**(5,735)**	**265**	**(26)**	**239**

15 Cash and balances with the Central Bank		
	2021	**2020**
Cash in hand	157,775	142,215
Balances with Central bank	1,981,774	1,793,619
Total	**2,139,549**	**1,935,834**
of which: Mandatory reserve with Central Bank in accordance with BNB Regulation 21	1,133,742	924,678

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 2021 and 2020 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		
	2021	**2020**
Deposits in other banks	505,528	516,068
Less impairment loss allowance	(166)	(162)
Total	**505,362**	**515,906**

Included in the amount of loans and advances to banks is accrued interest of BGN 27 thousand (2020: BGN 30 thousand). The impairment provisions under IFRS9 as of end of 2021 amounted to BGN 166 thousand (2020: BGN 162 thousand).

Approximately 81 % (2020: 81 %) of the amounts due from other banks represent funds placed in banks domiciled in OECD (Organisation for Economic Co-operation and Development) countries.

17 Trading assets		
	2021	**2020**
Bulgarian government bonds	37,097	39,643
Shares	1,272	1,029
Total	**38,369**	**40,672**
Equity securities: - Listed	1,272	1,029
Debt securities: - Listed	37,097	39,643

Included in the amount of the bonds is accrued interest in the amount of BGN 23 thousand (2020: BGN 26 thousand).

Gains less (losses) from trading securities	**2021**	**2020**
Debt securities	(83)	(213)
Equity securities	251	127
Total	**168**	**(86)**

18 Loans and advances to customers		
	2021	**2020**
Consumer lending (including credit cards)	1,498,719	1,235,628
Small Business lending	760,460	717,287
Mortgages	2,571,218	2,276,319
Corporate lending	4,262,292	3,834,609
Gross loans and advances	**9,092,689**	**8,063,843**
Less allowance for impairment losses on loans and advances	(298,738)	(264,968)
Net outstanding balance of loans and advances to customers	**8,793,951**	**7,798,875**

Included in the amount of loans and advances to customers is accrued interest of BGN 34,059 thousand (2020: BGN 40,873 thousand). In 2021 the Bank acquired no portfolios. (following the merger with ERB Leasing Bulgaria AD in 2020, the Bank acquired a portfolio amounting to BGN 23,949 thousand).

	2021	**2020**
The ten largest exposures to customers	948,653	822,656
Percentage of gross loans	10,43%	10.20%

The following table presents the impairment allowance movement by product line:

31 December 2021	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	**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**
New loans and advances originated or purchased	3,168	-	-	-	1,085	-	-	-	11,348	-	-	-	4,924	-	-	-	**20,525**
Transfers between stages:																	
-to 12-month ECL	*(5,262)*	*4,984*	*278*	-	*(5,325)*	*1,028*	*4,297*	-	*(4,777)*	*2,037*	*2,740*		*(4,621)*	*2,194*	*2,427*	-	-
-to lifetime ECL	*1,452*	*(1,453)*	*1*	-	*133*	*(5,528)*	*5,395*	-	*1,135*	*(3,963)*	*2,828*		*1,121*	*(2,144)*	*1,023*	-	-
-to lifetime ECL credit-impaired loans	*164*	*19*	*(183)*	-	*8*	*798*	*(806)*	-	*161*	*2,435*	*(2,596)*		*54*	*2,015*	*(2,069)*	-	-
Impact of ECL net remeasurement	(7,599)	(10,250)	18,756	3,080	2,599	9,041	9,764	2,117	(697)	6,718	15,406	106	(1,137)	(2,380)	16,890	436	**62,850**
Recoveries from written - off loans	-	-	8,517	-	-	-	6,277	-	-	-	3,142	-	-	-	3,185	–	**21,121**
Loans and advances derecognised/ reclassified as held for sale	-	-	(10,159)	-	-	-	(3,164)	-	-	-	(556)	-	-	-	(711)	–	**(14,590)**
Amounts written-off	-	-	(16,256)	-	-	-	(4,455)	-	-	-	(12,657)	-	-	-	(14,634)	–	**(48,002)**
Unwinding of discount		-	(1,346)	–	-	-	(2,236)	–	-	-	(1,522)	-	-	-	(1,353)	–	(6,457)
Foreign exchange differences and other movements	(1)	-	(131)	-	(2)	(3)	(1,135)	-	-	-	(157)	-	-	(124)	(124)	-	(1,677)
Impairment allowance as at 31 December	**5,672**	**1,857**	**51,354**	**8,351**	**2,379**	**9,088**	**72,815**	**2,953**	**19,241**	**17,519**	**40,981**	**121**	**7,833**	**7,571**	**49,946**	**1,057**	**298,738**

31 December 2020																	
	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	**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**

Loan commitments, financial guarantees and other commitments as of 31 December 2021 and as of 31 December 2020				
	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 2021	**392**	**7**	**122**	**521**
New financial assets originated or purchased	123	-	-	123
Amounts charged during the year	(190)	(7)	-	(197)
Foreign exchange and other movements	(122)	5	(2)	(119)
Impairment allowance as at 31 December 2021	**203**	**5**	**120**	**328**
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**

	2021	**2020**
Impairment allowance as at 1 January	**264,968**	**310,786**
Arising from acquisition/ merger		
Amounts written off	(48,002)	(123,922)
Movement recognized in profit or loss (Note 12)	83,375	82,719
Recoveries from written - off loans	21,121	37,248
Unwinding of Discount	(6,457)	(12,613)
Loans and advances derecognized during the year	(14,590)	(26,518)
Other movements (Collection costs, FX, Modification loss)	(1,677)	(2,732)
Impairment allowance as at 31 December	**298,738**	**264,968**

19 Investment securities		
a) Investment securities breakdown	**2021**	**2020**
Investment securities at FVTPL	24,571	22,124
Investment securities measured at amortised cost	961,653	453,882
ECL on investment securities measured at amortised cost	(1,287)	(820)
Investment securities at FVOCI - debt instruments	1,611,726	987,891
Investment in Mutual funds at FVTPL	39,125	-
Total	**2,635,788**	**1,463,077**
Equity securities - Unlisted	63,696	22,124
Debt securities - Listed - Unlisted	2,102,448 469,644	1,440,953 -
Total	**2,635,788**	**1,463,077**

b) Investment securities at FVOCI

The movement of investment securities at FVOCI is presented in the table below:

Fair value as at 31 December 2019	**519,643**
Additions	803,720
Disposals	(148,624)
Change in accrued interest	257
Amortization of discounts or premium	(7,307)
Net fair value loss	(470)
Foreign Exchange differences from translation into entity currency	(14,835)
Redemption	(164,493)
Fair value as at 31 December 2020	**987,891**
Additions	1,312,312
Disposals	(46,926)
Change in accrued interest	1,625
Amortisation of discounts and premium	(14,114)
Net fair value loss	(22,573)
Foreign exchange differences	25,198
Redemptions	(631,687)
Fair value as at 31 December 2021	**1,611,726**

Gains less (losses) and impairment of investment securities	2021	2020
Transfer the fair value reserve from equity to income statement	16	(24)
(Losses) OCI Bonds (Securities)	(16)	(4)
Gain recognized on investment securities	1,230	3,312
(Losses) on derivative fin. instruments (Hedging):	-	(213)
Total	**1,230**	**3,071**

c) Investment securities measured at amortized cost	2021	2020
Bonds issued by banks	526,674	453,882
ECL on Bonds issued by banks	(1,272)	(820)
Other financial corporations bonds	434,979	-
ECL on Other financial corporations bonds	(15)	-
Total	**960,366**	**453,062**

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 2020	**444**	**498**
New financial assets originated or purchased	422	266
Changes due to change in ECL risk parameters,incl. FX effect	(9)	(53)
Financial assets disposed during the period	(37)	(8)
Balance at 31 December 2020	**820**	**703**
New financial assets originated or purchased	834	856
Changes due to change in ECL risk parameters (other than transfers)	(234)	(79)
Financial assets disposed during the period	(133)	(16)
Balance at 31 December 2021	**1,287**	**1,464**

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.

Investment property	**2021**	**2020**
Beginning of the year	890	1,488
Impairment	(116)	(436)
Modification	23	(162)
Closing balance 31 December	**797**	**890**

As at 31 December 2021 the amount of Right of use of Investment Property included in the above table is BGN 345 thousand (2020: BGN 436 thousand).

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Class property	**Fair value 31/12/2021 (BGN)**	**Valuation technique**	**Significant Unobservable Input**	**Range (weighted average)**	**Range (weighted average)**	**Connection between the unobservable input and FV**
Land	453	Market comparison approach	price per m^2	13.35	13.41	A significant increase in price per m2 would result in a higher fair value
Commercial	345	Income approach	rent per m^2	13.69	17.6	A significant increase in rent per m2 would result in a higher fair value
			discount rate	11.2%	11.0%	A significant increase in discount rate would result in a lower fair value

21 Property, plant and equipment						
	Land and buildings	**Leasehold improvements**	**Plant and equipment**	**Land and buildings – Right of use assets**	**Motor Vehicles – Right of use assets**	**Total property, plant and equipment**
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**
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**
Revaluations, impairment and write offs	873	(976)	(683)	-	-	**(786)**
Transfers	-	(128)	-	-	-	**(128)**
Arising from acquisitions of subsidiaries	-	-	45	-	-	**45**
Terminations/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**
Year ended 31 December 2021						
Opening net book amount	**97,882**	**11,438**	**38,548**	**61,988**	**1,399**	**211,255**
Additions	2,981	5,319	7,557	-	201	**16,058**
Revaluation, impairment and write offs	3,525	(246)	(169)	-	-	**3,110**
Transfers	1,332	(1,332)	428	-	-	**428**
Termination / Modifications	-	-	-	23,808	(951)	**22,857**
Movement in accumulated depreciation						
Depreciation charge (Note 10)	(2,258)	(1,206)	(5,661)	(11,512)	(881)	**(21,518)**
Termination / Modifications	-	-	-	2,063	1,002	**3,065**
Closing net book amount	**103,462**	**13,973**	**40,703**	**76,347**	**770**	**235,255**
At 31 December 2021						
Gross amount	**104,222**	**34,928**	**88,616**	**106,941**	**2,210**	**336,917**
Accumulated depreciation	**(760)**	**(20,955)**	**(47,913)**	**(30,594)**	**(1,440)**	**(101,662)**
Net book amount	**103,462**	**13,973**	**40,703**	**76,347**	**770**	**235,255**

	2021	2020
Land and buildings at revalued amount	**103,462**	**97,882**
Revaluation reserve, net of tax	(6,138)	(2,766)
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	6,105	2,286
Deferred tax on revaluation	(682)	(307)
Land and buildings at cost less accumulated depreciation	**102,747**	**97,095**

21 Property, plant and equipment

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Class property	Fair value 31/12/2021 in BGN thousands	Valuation technique	Significant unobservable input	Range (BGN) (weighted average) 2021 in BGN	Range (BGN) (weighted average) 2020 in BGN
Land	14,237	Market comparison approach	price per m^2	11.68-756.20 (497.26)	12.97-681.00 (84.11)
Office	80,252	Income approach	rent per m^2	6.57-22.61 (19.79)	4.01-22.37 (19.67)
Office	6,714	Market comparison approach	price per m^2	62.45-2280.5 (760.94)	91.24-2288.32 (441.12)
Office	273	cost approach	price per m^2	34.24	-
Total	**101,476**				

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.

22 Intangible assets

	Sotware	Licenses	Internally developed	Other	Total intangible assets
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
Revaluation and write offs	356	18	-	-	374
Arising from acquisition/ merger	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					
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**
Year ended 31 December 2021					
Opening net book amount	**43,805**	**13,858**	**4,659**	**14,594**	**76,916**
Additions	4,509	7,020	1,214	1,043	13,786
Revaluation and write offs	(245)	(1,270)	-	-	(1,515)
Transfers	-	(428)	-	-	(428)
Amortisation charge (Note 10)	(4,420)	(2,828)	(618)	(1,223)	(9,089)
Closing net book amount	**43,649**	**16,352**	**5,255**	**14,414**	**79,670**
At 31 December 2021					
Gross book amount	**68,762**	**34,923**	**8,760**	**28,891**	**141,336**
Accumulated amortisation	**(25,113)**	**(18,571)**	**(3,505)**	**(14,477)**	**(61,666)**
Net book amount	**43,649**	**16,352**	**5,255**	**14,414**	**79,670**

23 Other assets		
	2021	**2020**
Amounts in transit	12,599	15,447
Repossessed collaterals	12,118	15,647
Other debtors	2,291	5,787
Prepaid expenses	13,364	10,066
Other assets	1,974	1,638
Materials	701	246
Less: impairment on other financial assets	(1,710)	(3,468)
Total	**41,337**	**45,363**

The financial assets contained in the Other assets note amounted to BGN 15,153 thousand (2020: BGN 19,404 thousand). The impairment on financial assets amounted to BGN 1,710 thousand (2020: BGN 3,468 thousand). BGN 26,183 thousand (2020: BGN 25,959 thousand) of the non-financial assets are expected to be realized within 12 months.

Impairment on other financial assets movement	**2021**	**2020**
Opening balance at 1st of January	3,468	2,378
Charged to the income statement	780	1,669
Reversed to the income statement	(88)	(252)
Used during year	(2,450)	(327)
Closing balance 31 December	**1,710**	**3,468**

24 Deposits from banks		
	2021	**2020**
Current accounts from other banks	9,190	7,383
Deposits from other banks	345	356
Total	**9,535**	**7,739**

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 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.

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:

	Contract / notional amount	Fair values Assets	Fair values Liabilities
Year ended 31 December 2021			
Derivatives that do not qualify for hedge accounting and held for trading			
Foreign exchange derivatives			
OTC currency swaps	1,283,213	762	149
Total OTC currency derivatives for trading	**1,283,213**	**762**	**149**
Interest rate derivatives			
OTC interest rate swaps	202,361	5,996	6,113
OTC IR options bought and sold	61,331	48	48
Total OTC interest rate derivatives for trading	**263,692**	**6,044**	**6,161**
Derivatives designated as fair value hedges			
OTC interest rate swaps	389,301	4,654	2,829
Total OTC interest rate derivatives for hedging	**389,301**	**4,654**	**2,829**
Total recognised derivative assets / liabilities		**11,460**	**9,139**
Year ended 31 December 2020			
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**

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 2021 the Bank recognized a gain of BGN 7,030 thousand (2020: BGN 973 thousand loss) from changes in the fair value of the hedging instruments, used as the basis of recognising hedge ineffectiveness and BGN 7,070 thousand loss (2020: BGN 991 thousand gain) from changes in the fair value of the hedged items attributable to the hedged risk. The amount of hedge ineffectiveness recognized for 2021 in the income statement is a BGN 40 thousand loss (2020 BGN 18 thousand gain). In 2021 the fair value hedges were highly effective (2020: highly effective).

Fair value hedges

At 31 December 2021, the amounts relating to items designated as FV hedged items were as follows:

Year ended 31 December 2021			
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	412,497	(3,035)	-
Total	**412,497**	**(3,035)**	**-**

At 31 December 2021, 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 (2020: BGN 0).

At 31 December 2021, 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:

	Fair Value Hedges					
Year ended 31 December 2021						
Nominal Amount	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Interest rate swaps	-	-	-	107,571	281,730	389,301
Total	**-**	**-**	**-**	**107,571**	**281,730**	**389,301**

26 Due to customers		
	2021	**2020**
Large corporate customers	2,627,456	1,966,814
Medium corporate customers	725,842	597,649
Total due to corporate customers	**3,353,298**	**2,564,463**
Retail customers	8,960,210	7,670,022
Total due to customers	**12,313,508**	**10,234,485**

Included within due to customers is related accrued interest payable of BGN 1,682 thousand (2020: BGN 2,011 thousand).

27 Other borrowed funds		
	2021	**2020**
MREL Debt Eurobank S.A.	146,765	-
Long term debt from Bulgarian Development Bank	19,813	25,475
European Bank for Reconstruction and Development	-	3,895
Total	**166,578**	**29,370**

Reconciliation of movements of liabilities to cash flows arising from financing activities is presented in the table below:

	2021	**2020**
Opening balance at 1 January	**29,370**	**38,924**
New funding	146,687	-
Repayment of long-term debt (principal)	(9,566)	(9,566)
Interest expense	429	511
Interest paid	(342)	(480)
Deferred expenses	-	(19)
Balance at 31 December	**166,578**	**29,370**

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 2021 the total liability amounted to BGN 12,368 thousand (2020: BGN 15,903 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 2021, the total liability amounted to BGN 7,445 thousand (2020: BGN 9,572 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 2021, the loan is fully repaid (2020: BGN 3,895 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 2021 and 2020 the utilization of that line is BGN 0.

d) Loan from Eurobank Ergasias S.A.

Under the Directive 2014/59 (Bank Recovery and Resolution Directive or BRRD), as amended by Directive 2019/879 (BRRD II), which was transposed into the Bulgarian legislation pursuant to Recovery and Resolution of Credit Institutions and Investment Firms Act, European banks are required to meet the minimum requirement for own funds and eligible liabilities (MREL). As per the legislation, the MREL target is determined by the relevant resolution authority that banks must comply with from 1 January 2024, where interim binding targets effective as of 1 January 2022.

In preparation for the interim MREL target in December 2021, Eurobank Bulgaria and Eurobank S.A signed a Loan Agreement for the amount of EUR 75,000 thousand (BGN 146,687 thousand) meeting the eligibility criteria for internal MREL eligible liabilities, which will allow the Bank to comfortably comply with this requirement. As of 31 December 2021 the total liability amounted to BGN 146,765 thousand.

28 Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 10% (2020: 10%). The movement on the deferred tax account is as follows:

	2021	2020
Deferred tax asset at the beginning of year	(11,191)	(16,050)
Deferred tax liability, net, recognized in OCI	856	152
Deferred tax expense/ (benefit) (Note 13)	1,779	4,707
Net deferred tax (asset) / liability at end of year	**(8,556)**	**(11,191)**

Deferred tax assets and liabilities are attributable to the following items:

	2021	2020
Deferred tax liabilities		
Accelerated tax depreciation	4,865	4,469
Property revaluation	682	307
Gain on share exchange	519	519
Deferred tax liability on bargain gain (FV of securities, LG/ LC)	354	384
IFRS 16 contracts	2,936	1,551
Deferred tax assets	**9,356**	**7,230**
Unused holidays	119	140
Provision for legal proceedings	1,113	1,080
Provision for retirement benefit obligations	855	835
Deferred tax assets on actuarial loss	(492)	(11)
Deferred tax assets on provisions for restructuring	278	541
Deferred tax assets on bargain gain (FV of loans, shares)	11,568	12,800
Deferred tax asset on investment property IFRS 16	476	464
Other temporary differences	1,376	1,199
IFRS 16 contracts	2,619	1,373
Total	**17,912**	**18,421**

The deferred tax charge/ (credit) in the income statement comprises of the following temporary difference:

	2021	2020
Depreciation	396	46
Unused holidays	21	43
Provision for legal proceedings and off balances	(33)	121
Other temporary differences	(177)	(446)
Provisions for restructuring and other liabilities	263	1,644
Provision for retirement benefit obligations	(21)	(68)
DTA PBB transaction	1,202	3,238
DTA invetsment property IFRS 16	(11)	(49)
DTL IFRS 16 contracts	1,385	1,551
DTA IFRS 16 contracts	(1,246)	(1,373)
Net deferred tax expense/ (benefit) (Note 13)	**1,779**	**4,707**

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	**2021**	**2020**
Opening balance at 1st of January	11,028	12,013
Charged to the income statement	5,076	3,115
Used during year	(3,934)	(2,484)
Reversed during the year	(1,057)	(1,616)
Closing balance	**11,113**	**11,028**

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	**2021**	**2020**
Opening balance at 1st of January	2,398	14,570
Used during year	(2,094)	(12,172)
Closing balance	**304**	**2,398**

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**	
	2021	**2020**	**2021**	**2020**
Cash with Central bank (held as mandatory reserve)	1,133,742	924,678	12,499,367	10,244,748
Trading and investment securities (pledged under government accounts)	82,003	84,293	51,715	53,806
Investment securities (pledged under EBRD funding)	-	7,967	-	3,895
Investment securities (pledged under Securities lending agreement)	157,008	158,830	-	-
Loans pledged under long term debt agreement	11,347	15,034	19,813	25,474
Total	**1,384,100**	**1,190,802**	**12,570,895**	**10,327,923**

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) as of 31 December 2021 was BGN 1,384,100 thousand (2020: BGN 1,190,802 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 300 thousand (2020: BGN 263 thousand) is blocked in a BNB account under a disputed court ruling. Pledged funds under Credit Support agreements are BGN 6,982 thousand (2020: BGN 10,620 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 involve 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.

Retirement benefit obligation	**2021**	**2020**
Retirement benefit obligation at 01 January	8,238	8,062
Service cost	524	810
Interest cost	33	77
Benefits paid	(353)	(207)
Remeasurement	(4,813)	(504)
Retirement benefit obligation at 31 December	**3,629**	**8,238**
Expenses recognised in profit or loss		
Service cost	524	810
Interest cost	33	77
Total (income) / expense included in staff costs (Note 11)	**557**	**887**
Total remeasurement recognised in OCI	**(4,813)**	**(504)**

Significant actuarial assumptions	**2021**	**2020**
Discount rate	0.60%	0.95%
Future salary increase:		
2021:	2.00%	5.00%
2022:	2.00%	4.00%
2023:	2.00%	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 2021 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 4.5% or BGN 163 thousand/by 4.8% or BGN 174 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 4.7% or BGN 171 thousand/ by 4.5% or BGN 163 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

	2021	2020
Lease liabilities	79,114	66,811
Other creditors	69,055	53,678
Accrued expenses	28,231	42,433
Withholding tax obligations	9,572	10,494
Unused paid leave accrual	1,192	1,398
Other	776	2,454
Deferred income	334	334
Total	**188,274**	**177,602**

As at 31 December 2021 the financial liabilities contained in the Other liabilities note amounted to BGN 168,623 thousand (2020: BGN 134,367 thousand).

32 Capital and reserves

a) Share capital

As at 31 December, 2021 and 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 Ergasias 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.

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 increased 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 2021 and 2020 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:

	2021	2020
Cash in hand (Note 15)	157,775	142,215
Balances with Central bank excluding the minimum level of mandatory reserves	1,414,924	1,331,295
Loans and advances to banks	407,716	418,256
Total amount of cash and cash equivalents	**1,980,415**	**1,891,766**
Less impairment allowance	(49)	(44)
Net amount of cash and cash equivalents	**1,980,366**	**1,891,722**

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.

34 Related party transactions

Eurobank Ergasias Services and Holdings S.A. (Eurobank Holdings) is the parent company of Eurobank S.A., which resulted from the demerger of Eurobank Ergasias S.A. ("Demerged Entity") through its banking sector's hive down that was completed in March 2020.

The Board of Directors (BoD) of Eurobank Holdings is the same as the BoD of Eurobank S.A. and part of the Key Management personnel (KMP) of Eurobank S.A. provides services to Eurobank Holdings according to the terms of the relevant agreement between the two entities. As at 31 December 2021, the percentage of the Eurobank Holdings'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 Eurobank Holdings 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 Eurobank S.A., Eurobank Holdings and the HFSF signed on 23 March 2020.

In July 2021, Eurolife FFH Insurance Group Holdings S.A. became a subsidiary of Fairfax and the percentage of Eurobank Holdings voting rights held by Fairfax Group increased from 31.27% to 33% of the total number of Eurobank Holdings voting rights. Fairfax Group is considered to have significant influence over the Eurobank Holdings.

A number of banking transactions are entered into with related parties in the normal course of business and are conducted on an arm's length basis. 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.

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 2021			31 December 2020		
	Parent company	**Other Group compa-nies***	**Key man-agement personnel**	**Parent company**	**Other Group compa-nies***	**Key man-agement personnel**
Purchased loans and advances to customers (Note 18)	-	-	-	-	23,949	-
Loans and advances to banks (weighted interest rate 2021: 0.99%, 2020: 1.33%)	296,211	97,812	-	319,314	97,812	-
Loans and advances to customers (weighted interest rate 2021: 0.39%, 2020: 0.58%)	-	254,289	22	-	136,935	12
Debt securities lending	79,564	2,349	-	-	11,741	-
Derivative financial instruments assets	6,046	-	-	1,357	-	-
Other assets	-	3	-	-	33	-
Due to other banks	152,123	450	-	1,070	4,471	-
Due to customers (weighted interest rate 2021: 0.001% , 2020: 0.002%)	-	7,734	843	-	8,787	1,312
Derivatives Liabilities	8,485	-	-	8,008	-	-
Other liabilities	169	79	-	-	69	-
Interest income	9,550	1,662	-	8,237	7,764	1
Interest expense	(2,719)	-		(1,999)	(655)	-
Fee and commission income	1,890	647	-	18	507	-
Fee and commission expense	(137)	(1)	-	(139)	(15)	-
Net trading (expense)/ income	1,362			1,220	(1,345)	-
Salaries and other short-term benefits	-	-	3,206	-	-	2,976
Rental income/(expense)	-	69	-	-	17	-
Other expenses	(59)	(745)	-	(1,349)	(20)	-
Letters of guarantee received	254,258	1,565	-	136,908	782	-

* *represent other entities under common control*

All loans lent to related parties as at 31 December 2021 and as at 31 December 2020 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.

A list of the related parties of the Bank during 2021 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 Direktna A.D.(former Eurobank A.D. Beograd)	Serbia	Other company within the Group
Eurobank Fund Management Company (Luxembourg) S.A.	Luxembourg	Other company within the Group
Eurobank Holding S.A	Greece	Other company within the Group
Eurobank Factors Single Member S.A.	Greece	Other company within the Group
Eurobank Holding (Luxembourg) S.A.	Luxembourg	Other company within the Group
IMO Property Investments Sofia E.A.D.	Bulgaria	The entity was liquidated in December 2021
IMO 03 E.A.D	Bulgaria	Other company within the Group
Eurobank Private Bank Luxembourg S.A.	Luxembourg	Other company within the Group
IMO Property Investments Bucuresti S.A.	Romania	Other company within the Group
ERB Leasing Bulgaria E.A.D.	Bulgaria	Other company within the Group *The entity was merged with the Bank in the year 2020

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 2021 and 31 December 2020, 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:

	2021	2020
Guarantees	175,708	202,864
Letters of credit	27,714	35,195
Loan commitments and other credit related liabilities	1,704,848	1,584,961
Total	**1,908,270**	**1,823,020**

(c) Capital Expenditures

As at 31 December 2021, the Bank had the following capital expenditure commitments:

	2021	2020
Capital Expenditures	**16,932**	**4,868**

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 2021, the right-of-use assets included in property plant and equipment amounted to BGN 77,117 thousand (2020: BGN 63,387 thousand) (Note 21), while those that meet the definition of investment property amounted to BGN 345 thousand (2020: BGN 436 thousand) (Note 20).

Lease Liabilities

As at 31 December 2021 the lease liability included under other liabilities amounted to BGN 79,114 thousand (2020: BGN 66,811 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 13,593 thousand in 2021 (BGN 15,464 thousand in 2020).

Reconciliation of movements of liabilities to cash flows arising from lease financing activities is presented in the table below:

	2021	2020
Opening balance at 1 January	**(63,482)**	**(61,562)**
New Leases	(2,375)	(18,515)
Repayment of principal part of lease liability	12,381	13,739
Interest expense	(67)	(59)
Interest paid	67	59
Expense for leases of low-value assets	(1,145)	(1,607)
Payments for leases of low-value assets	1,145	1,607
FX Revaluartion	(50)	-
Modifications	(23,782)	2,856
Balance at 31 December	**(77,308)**	**(63,482)**

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:

	2021	2020
Not later than one year	173	284
One to two years	137	272
Two to three years	117	234
Three to four years	115	121
Four to five years	85	85
More than five years	64	149
Total	**691**	**1,145**

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 2021 of finance lease receivables, based on the undiscounted lease payments to be received after the reporting date, is provided below:

	2021	2020
Not later than one year	12,525	10,725
One to two years	9,934	6,735
Two to three years	7,085	4,191
Three to four years	4,187	1,900
Four to five years	1,802	890
More than five years	586	14
Gross investment in finance leases	**36,119**	**24,455**
Less: unearned finance income	(2,818)	(1,732)
Net investment in finance leases	**33,301**	**22,723**
Less: impairment allowance	(425)	(1,505)
Total	**32,876**	**21,218**

37 Shares in subsidiary undertakings

As at 31 December 2021 the Bank has no shares in subsidiaries.

38 Acquisitions and merger

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**

39 Disclosure under art. 70, para. 6 of the Law on Credit institutions

The data provided is as of 31 December 2021:

Name Bulgaria:	Activity description	Seat	Turnover amount	Number of employees	Profit before tax	Tax charged	Return on assets	State subsidies received*
Eurobank Bulgaria AD	Credit institution	Bulgaria, Sofia	531,267	3,289	188,292	(19,066)	1.28%	288

** In the 2021 The Bank has benefited from the preferences under the Program for compensation of non-household electricity customers, approved by Decision No 739 and 771 of the Council of Ministers of 2021 and accounted this benefit as a government grant under IAS 20.*

The Bank considers that the grant is intended to compensate for its operating costs and therefore, the benefit is allocated under Repairs and maintenance expense.

The data provided is as of 31 December 2020:

Name Bulgaria:	Activity description	Seat	Turnover amount	Number of employees	Profit before tax	Tax charged	Return on assets	State subsidies received*
Eurobank Bulgaria AD	Credit institution	Bulgaria, Sofia	493,053	3,267	169,819	(17,143)	1.36%	-

40 Events after the balance sheet date

On 24 February 2022, Russian president Vladimir Putin announced that Russia is initiating a "special military operation" in the Donbas and launched a full-scale invasion into Ukraine. Current geopolitical situation is preceded by several key events dated back to 2014. In December 2021, Russia advanced two draft treaties that contained requests for what it referred to as "security guarantees", including a legally binding promise that Ukraine would not join the North Atlantic Treaty Organization (NATO) as well as a reduction in NATO troops and materiel stationed in Eastern Europe, and threatened unspecified military response if those demands were not met in full. NATO has rejected these requests, and the United States warned Russia of "swift and severe" economic sanctions should it further invade Ukraine. On 21 February 2022, Russia officially recognized the two breakaway regions in eastern Ukraine, the Donetsk People's Republic and the Luhansk People's Republic, as independent states and deployed troops to Donbas, in a move interpreted as Russia's effective withdrawal from the Minsk Protocol. On 22 February, Putin said that the Minsk agreements were no longer valid and on the same day, the Federation Council unanimously authorised the use of military force in the territories.

In response, United States, the European Union (EU) and other countries and international organizations started to roll out sanctions against Russia, Russian individuals, businesses and officials from Russia and Ukraine. Russia responded with sanctions against a number of countries, including a total ban on food imports from Australia, Canada, Japan, the United States and EU. The sanctions contributed to the collapse of the Russian ruble and let to a financial crisis in Russia.

As the situation with the conflict and related sanctions is very dynamic with far-reaching and long-term consequences, any assessment of potential impact would be premature. Currently the Bank has no direct or indirect exposure to Russia or Ukraine, yet potential spillover effects would be closely monitored. The Bank has robust internal control system which encompasses EXCO, ALCO, Operational Risk Committee, Special Handling Monitoring Committee, MB, SB, Risk Committee as well as Compliance & AML. The Bank regularly monitors and updates sanctions lists, analyses the impact on its business activity and is ready to take appropriate measures to ensure compliance. Therefore, management considers the going concern assumption adopted in the preparation of these financial statements as appropriate.

There are no other significant post balance sheet events with effect on the financial statements as of 31 December 2021.