BULGARIAN-AMERICAN CREDIT BANK AD

CONSOLIDATED FINANCIAL STATEMENTS PREPARED
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
APPROVED BY EU
ANNUAL CONSOLIDATED REPORT ON THE ACTIVITIES

FOR THE YEAR ENDED 31 DECEMBER 2021

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

CONTENTS

Name	BULGARIAN-AMERICAN CREDIT BANK AD
Change of name	No change
Country of incorporation	Bulgaria
Legal form	Joint-stock company
Address	2 Slavyanska Str., Sofia 1000
Principal place of business	Bulgaria
Principal activities	Banking
Name of parent entity	No parent entity

Management Board
Mr. Ilian Georgiev – Member of the Management Board and Chief Executive Officer;
Mrs. Loreta Grigorova – Member of the Management Board and Executive Director;
Mr. Alexander Dimitrov - Member of the Managing Board and Executive Director;
Mrs. Silviya Kirilova – Member of the Management Board and Chief Legal Officer.

Registration number
UIC 121246419

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

AFA OOD
38, Oborishte Str.
1504 Sofia, Bulgaria

Annual Report on the Activity

of Bulgarian-American Credit Bank AD

on a Consolidated Basis

for 2021

Approved on 15 March 2022

In 2021 Bulgarian American Credit Bank AD (BACB, the Bank) continued to operate as a universal bank, providing a full range of banking services aimed at the green economy, including financing of small and medium enterprises and expansion of retail banking services by offering a variety of products in the field of housing and consumer lending and transactional banking. The Bank strives to meet customer needs by providing a complex set of banking services through modern banking technology and, as a result, to expand its customer base.

Economic review

External environment

The global economy continues to recover, although the prolonged supply difficulties, the increased stock prices and the emergence of the omicron variant of the coronavirus (*COVID-19*) continue to worsen the short-term growth prospects. Compared to previous forecasts the global economy growth prospects in the macroeconomic forecasts of Eurosystem experts of December 2021 have been revised slightly upwards for 2021, they remain the same for 2022 and slightly increased for 2023. Global GDP growth in real terms (excluding the euro area) is expected to increase to 6.0% in 2021, before slowing down to 4.5% in 2022, to 3.9% in 2023 and to 3.7% in 2024.

The economy of the euro area continues to recover. Growth remains moderate, but activity is expected to increase significantly again this year. Factor for the continuation of the economic recovery is expected to be the high domestic demand. The labour market is improving as more people have jobs and fewer job retention schemes are covered, which supports the prospect of increasing household income and consumption. The savings accumulated during the pandemic will also support consumption. Economic activity was moderate in the fourth quarter of past year, and this slower growth seems to continue at the beginning of this year as well. At present, production is expected in the first quarter of 2022 to exceed its pre-crisis level. To handle the current pandemic wave, some countries in the Euro area have reintroduced strict anti-epidemic measures. This could delay recovery, especially in the travel, tourism, hospitality and entertainment sectors. In addition, rising energy costs hamper consumption. Lack of equipment, materials and labour force in some sectors hinder the production of industrial goods, causing delays in construction and slowing the recovery in some service sub-sectors. These difficulties will continue for some time, but will decrease in 2022.

By the end of 2022, the economic activity is expected to recover significantly. The Eurosystem experts' macroeconomic projections of December 2021 forecast GDP growth in real terms of 5.1% per year in 2021, by 4.2% in 2022, by 2.9% in 2023 and by 1.6% in 2024. Compared to the forecasts of September, the expectations have been revised downwards for 2022 and upwards for 2023.

Inflation continued to rise to 4.9% in November. It will remain above 2% for most of 2022, and is expected to remain high in the near future, but to decline over the current year. The rise in inflation mainly reflects the sharp rise in oil, gas and electricity prices. Furthermore, in some sectors demand continues to outpace supply. The effects are particularly visible in the prices of durable goods and of those consumer services whose owners have recently reopened. Basic effects related to the abolition of the temporary VAT cut in Germany further contribute to high inflation, but only by the end of 2021. In 2022 the energy prices are expected to stabilize, the consumer habits to normalize and the price pressures stemming from difficulties in global supply to weaken. Over time, the gradual return of the economy to full capacity functioning and the further improvement of labour markets will support rapid wage growth. The Eurosystem experts' macroeconomic projections of December 2021 forecast annual inflation of 2.6% in 2021, 3.2% in 2022, 1.8% in 2023 and 1.8% in 2024, significantly higher than in the previous forecasts of September. Inflation (excluding energy and food) is expected to average 1.4% in 2021, 1.9% in 2022, 1.7% in 2023 and 1.8% in 2024 and is also higher than that stated in the September forecast.

Bulgaria

In the period January - September 2021, the real GDP increased by 3.6% compared to January - September 2020 according to seasonally unadjusted data, and the growth was almost entirely determined by the growth of private consumption. Thus, as at Q3 2021, economic activity had recovered to 99.8% compared to the level of Q4 2019 before the onset of the crisis caused by the spread of COVID-19. The available economic indicators for the last quarter of 2021 mainly show a continuation of the growth of the real GDP on a chain basis. As a result, BNB expects the real GDP to grow by 3.7% in total for 2021, which will be almost entirely due to a 7.5% increase in private consumption. The relatively strong increase in labour income, net fiscal transfers to households and the improvement in consumer attitudes contribute to the growth of household final consumption expenses during the year. (*NSI express estimates for Q4 2021 show that Gross Domestic Product (GDP) increased by 4.5% compared to the corresponding quarter of the previous year and by 1.0% compared to Q3 2021 according to seasonally adjusted data).*

The forecast for 2022 and 2023 reflects information on the funds that Bulgaria is expected to receive from the EU for the implementation of the National Recovery and Sustainability Plan (NRSP) in the period 2022-2026 amounting to BGN 12.9 billion (EUR 6.596 billion), to which private national investments worth a total of BGN 6.8 billion (EUR 3.477 billion) are planned to be attracted. In 2022, the GDP growth is projected to slow slightly to 3.6%, which will be mainly due to the significantly lower growth in private consumption, but also to a decline in government consumption. This is due to the high base in 2021 and the negative effects of the projected acceleration of inflation by mid-2022 on the real disposable income of households and on the consumer attitudes. In 2023, GDP growth is expected to accelerate to 4.5%.

Regarding the labour market, BNB estimates that the number of employees will slightly increase by 0.2% in 2021 and continue to grow by 1% in 2022 and by 0.6% in 2023, but at the end of the forecast horizon it will remain below 2019 due to the unfavourable demographic trends in the country. The unemployment rate is expected to rise to 5.5% in 2021, mainly as a result of changes in the methodology of the Labour Force Survey from the beginning of 2021, which are not reflected in the previous years. The forecasts for economic activity increase in the country will be reflected in the decrease of the unemployment rate to 5.1% in 2022 and to 4.8% in 2023. The real labour productivity growth is expected to reach 3.7% in 2021 and to slow down to 2.7% in 2022 as a result of the higher employment in the economy. The compensation per employee is projected to increase by 9.2% in 2021 and by 10.4% in 2022. The high inflation rate in 2022 in the conditions of growing labour force shortages will make a major contribution to accelerating the growth of wages in the private sector.

After a period of suppressed dynamics of consumer prices in the conditions of pandemic in Q2 2021, there was a trend to rapidly accelerating inflation in the country, which reached 6.3% in November and significantly exceeded the expectations. The acceleration of inflation was wide-ranging and the factors for this can be divided into four main groups: 1) increase in international prices of energy products and food; 2) significant increase in the prices of international transport of goods due to difficulties in global supply chains; 3) increase in labour costs per unit of output; and 4) strong growth of private consumption in the country due to the growth of the nominal disposable income of households, strengthening consumer confidence and lowering the savings rate. In Q4, the annual HICP growth is expected to accelerate to 7.7% by the end of 2021. BNB expects the annual inflation, as measured by the HICP change, to continue accelerating in the first half of the year, followed by slowing to 7.5% by the end of 2022. The upward dynamics of consumer prices will mainly reflect the manifestation of supply-side effects. With respect to demand, in 2022 the pressure to increase the prices of the basic components of the HICP is expected to weaken which is in line with the projected slowdown in the growth of private consumption. The growth rate of consumer prices is expected to slow down to 3.4% at the end of 2023, mainly due to the technical assumptions for lower international energy prices, whereby the groups of services and food products are expected to continue to have the largest positive contribution to inflation in 2023.

Forecast of the main macroeconomic indicators for the period 2021-2023.

2020		2021	2022	2023
Annual real rate of change				
GDP at constant prices	-4.4	3.7	3.6	4.5
Private consumption	-0.4	7.5	2.8	3.1
Government consumption	8.3	4.1	-1.7	0.2
Gross fixed capital formation	0.6	-7.8	8.9	17.7
Export of goods and services	-12.1	8.6	7.3	6.5
Import of goods and services	-5.4	10.8	6.0	7.2
HICP at the end of the period*	0.0	7.7	7.5	3.4
Basic inflation rate	0.5	5.6	9.2	4.0
Energy products	-13.4	35.0	-6.6	0.8

Food	2.0	9.0	14.1	4.7
Goods and services with administratively determined prices and tobacco products	1.2	2.9	1.4	1.2
Employment	-2.3	0.2	1.0	0.6
Labour expenses per unit of output	9.5	5.3	7.5	4.5
Labour productivity	-2.1	3.7	2.7	3.7
Unemployment rate (share of the labour force,%)	5.2	5.5	5.1	4.8
Receivables from private sector	4.5	8.2	7.3	7.3
Receivables from enterprises	2.3	4.2	5.2	5.5
Receivables from households	6.6	12.8	9.8	9.5
Deposits of the non-government sector	9.7	9.7	7.6	7.3
Percentage of GDP				
Current account of the balance of payment	-0.3	-1.1	-0.6	0.2
Trade balance	-3.2	-4.7	-5.3	-5.2
Services, net	5.0	6.7	7.4	8.1
Primary income, net	-3.4	-4.0	-4.4	-4.2
Secondary income, net	1.4	0.9	1.7	1.6
Annual real rate of change				
External assumptions				
External demand	-8.2	8.6	5.1	5.6
Average annual price of Brent oil (in USD)	-33.9	67.6	2.5	-4.4
Average annual price of non-energy products (in USD)	3.5	35.0	6.9	4.0
Brent 8 oil price at the end of the period (in USD)	-28.9	82.6	-12.4	-3.8
Price of non-energy products at the end of the period (in USD)	12.2	28.7	2.2	7.8

Source: BNB

The risks to the presented forecast are related to the development of the epidemic situation, both in the country and globally. There are also risks in a positive direction. The funds under the European Recovery Plan will have a positive effect on the economy, with Bulgaria expected to have access to more than EUR 12 billion under the new EU Mechanism for Reconstruction and Sustainability.

BACB – business performance

At the end of the fourth quarter of the year, the Bank's loan portfolio increased by 8.58% net, or by BGN 98.530 million (EUR 50.378 million), compared to the end of the preceding year 2020. The total number of newly granted loans increased net by BGN 111.389 million (EUR 56.952 million) or by 10.89%.

For SMEs and Corporate loans to legal entities, the Bank reported a net increase in the amount of BGN 42.889 million (EUR 21.929 million)or 5.41%, and their share reached 66.37% of the total loan portfolio of the Bank, compared to 68.60% at the end of 2020, and the market share in the sector of legal entities was 2.52% at the end of December 2021, compared to 2 - 2.5% set by the development strategy.

For borrowings from SMEs and Corporate clients, as at the end of 2020 the total borrowed resource is BGN 337.701 million (EUR EUR 172.664 million), whereas as at the end of 2021 the Bank reached a growth of BGN 66.015 million (EUR 33.753 million) to BGN 403.716 million (EUR 206.417 million) or 19.6% on an annual basis. The Bank reported a decrease compared to the end of the previous year by BGN 7.047 million (EUR 3.603 million) or 15.83% for fixed-term deposits and for on-demand funds by BGN 73.062 million (EUR 37.356 million) or 24.92%. According to borrowings from legal entities, BACB reaches 2.94% market share as at 31 December 2021, compared to 2-2.5% set under the strategy.

In pursuance of the Bank's strategy, the old "legacy" loan portfolio to legal entities was reduced by BGN 18.791 million (EUR 9.608 million) net or 45.35% on an annual basis, reaching a total balance-sheet exposition of BGN 22.644 million (EUR 11.578 million), and their share in the total lending portfolio of the Bank decreased from 3.32% at the end of 2020 to 1.71% as at 31 December 2021.

Despite the negative economic situation and the impact of the ongoing global COVID-19 pandemic, which contributes for increasing the problem exposures of legal entities, on this indicator BACB dropped by 14.57% or BGN 24.514 million (EUR 12.534 million) in total value at the end of 2021, compared to the same period in the preceding year. As a share of the total loan portfolio, problem exposures decreased by 2.62% to 10.84% at the end of 2021, compared to 13.46% at the end of 2020. The decrease is due to active actions of the responsible units for their collection and the outpacing growth of the regular new loan portfolio.

The following initiatives carried out by BACB also helped to extend credit operations for Corporate Clients:

- The joint program "Forward" with BDB for financing micro-, small and medium business, which supported 62 SME companies with a total of over 1,550 employees;
- Since 2018, the Bank has applied the concluded agreement with Bulgarian Development Bank EAD for financing small and medium enterprises with guarantee facility and counter-guarantees under the COSME Program of the European Investment Fund, with the support of the European Fund for Strategic Investments - COSME + Program in the amount of EUR 10,000,000. As of 31 December 2021, there are 126 total agreed loans for a volume of BGN 19,363,067.06 (EUR 9,900,178.98); principal in the amount of BGN 11,377,754.05 (EUR 5,817,353.27) with guarantees in the amount of BGN 6,826,652.43 (EUR 3,490,411.96). Under this program, 126 SMEs with a total of over 1,505 employees have been supported and with a total amount of assets of BGN 192,094,998.63 (EUR 98,216,613,20);
- BACB AD works under a guarantee scheme in order to facilitate the access of SMEs' to financing by commercial banks through a risk sharing scheme of the National Guarantee Fund EAD and the Ministry of Agriculture and Food. As at 31 December 2021, there are 3 active guarantees for BGN 359,760 (EUR 183,942.37)or loans with principals for BGN 719,520 (EUR 367,884.73).
- BACB applies a Guarantee Scheme for support of SMEs from NGF / SMEs 2019 / - working capital and investment loans as well as counter-guarantees on bank guarantees. As at 31 December 2021, there are 13 new loans agreed under the program for BGN 3,671,606.03 (EUR 1,877,262,35) or a total of 59 loans in the active portfolio for BGN 24,778,307.15 (EUR 12,668,947.27) with guarantees amounting to BGN 9,942,240.98 (EUR 5,083,387.09). Under this program, 80 SMEs with a total of over 1,073 employees have been supported with a total amount of assets of BGN 216.810 million (EUR 110.853 million).
- BACB applies the Guarantee Scheme of the COSME NGF Program and the European Fund for Strategic Investments (EFSI). As of 31 December 2021 there are 16 active loans with principal in the amount of BGN 3,776,433.39 (EUR 1,930,859.73). A total of 30 SMEs with a staff of over 731 employees were supported under the scheme for loans amounting to BGN 12,370,222 (6,324,794.08) and guarantees amounting to BGN 6,519,692.96 (EUR 3,333,466.08).
- BACB also applies the guarantee schemes of the Municipal Guarantee Fund for small and medium enterprises to Sofia Municipality. As at 31 December 2021, the total agreed guarantee portfolio under the scheme amounts to BGN 856,209.13 (EUR 437,772.78), and the total value of loans granted under this scheme amounts to BGN 4,531,919.10 (EUR 2,317,133.44).
- BACB applies a guarantee scheme to support SMEs affected by the Covid-19 crisis jointly with BDB AD. From the beginning of the scheme on 01 June 2020 to 31 December 2021, there are 195 loans in the amount of BGN 42,648,104.63 (EUR 21,805,629.64) granted to companies with total staff of over 4,175 and total assets of BGN 942.767 million (EUR 482.029 million). As of 31.12.2021 the active loans are 174 with principals in the total amount of BGN 37,558,494.94 (EUR 19,203,353.53) and guarantees in the amount of BGN 28,568,513.96 (EUR 14,606,849.24).
- During the period, a new agreement was concluded with BDB EAD under the guarantee scheme of the "Recovery" program to support businesses through guarantees of 80%. The loans amount to max. BGN 3,000,000 (EUR 1,533,875.64) and are granted without collateral, with shortened approval periods. From the beginning of the program there are 7 loans in the amount of BGN 1,913,500 (EUR 978,357.01) granted to companies with a total of over 3,414 employees and total assets of BGN 10.886 million (EUR 5,565,923.42).
- BACB applies a guarantee scheme with Fund Manager of Financial Instruments in Bulgaria - Portfolio Guarantee with a loss cap for handling the consequences of the COVID-19 pandemic in the amount of BGN 20,000,000 (EUR 10,225,837.62), where the guarantees amount to 80%. As at 31 December 2021, a total of 19 loans have been agreed for BGN 19,230,953.50 (EUR 9,832,630.39), principals in the amount of BGN

15,604,875.05 (EUR 7,978,645.92) and guarantees in the amount of BGN 12,010,655.93 (EUR 6,140,950.86). The agreed guarantee portfolio has been fully utilized;
- BACB AD also applies a guarantee scheme with Fund Manager of Financial Instruments in Bulgaria - Portfolio Guarantee with a loss cap for handling the consequences of the pandemic – "Recovery" Program. As of 31.12.2021, a total of 2 loans have been granted for BGN 550,000 (EUR 281,210.53) with guarantees in the amount of BGN 440,000 (EUR 224,968.43).

In Q4 2021, the Retail Banking business line, managing the business segment of individuals in BACB, registered very good results in lending, with the highest growth registered in low-risk mortgage loans by BGN 63.4 million (EUR 32,416 million) or by 44.358% compared to the end of 2020. The growth in mortgage lending is due to the excellent price conditions and the customer-oriented approach of the Bank. Consumer loans, in turn, increased by BGN 11.4 million (EUR 5,829 million) or 20.65%.
The market presence of the two product segments in the banking system as at the end of 2021 was 1.04% for mortgage loans and 0.68% for consumer loans, respectively, and the Bank expects them to continue their upward trend. According to the set strategy of BACB, the goal in the business segment Retail Banking provides for additional significant growth and reaching 2% market share in the coming years.
By achieving high results, the Bank implements another main goal set in its strategy for development of Retail Lending, namely: increasing the share of loans to natural persons in the total loan portfolio, which at the end of 2021 reached 23.71% compared to 20.64% in end of the previous years.

In order to develop its business with individuals, BACB carried out the following activities:

- Conducted campaign for mortgage loans in connection with the 25th anniversary of BACB, for customers with a good customer profile, under extremely competitive conditions. The Bank continues to strengthen and improve its market position in mortgage lending and during the year increased to 9th ranking in the banking system in terms of mortgage portfolio.
- Conducted campaign for sale of consumer credit overdraft to customers with good creditworthiness, receiving their monthly remuneration in the Bank.
- During the year, the offering of a new payment product for individuals "Clean Account" with a new VISA plastic started, for the use of which individuals do not pay a monthly fee on the payment account under certain conditions.
- "Instant" bank consumer loan is also launched - a completely online consumer loan combining speed and convenience due to automatic approval and disbursement of funds without visiting a bank office, available also to individuals who are not BACB customers at the time of applying.
- BTL, online and Facebook advertising campaign of the innovative payment package "Clean Account" with VISA Card with online management was successfully carried out as a functionality of the new internet banking "BACB Online", as well as a digital advertising campaign for Instant online loan
- A new deposit product was created - 12-month deposit "Growing Interest", in which the interest rate increases every following quarter, while the customers continue to be provided with access to their funds and are allowed to withdraw money without violating the terms of the deposit.
- The Bank continues the promotion on the market of its innovative product for individuals - quick consumer loan "BACB Express", offered at specialized points of sale in large Mall-type shopping centers. The products offered at these points are increasing, and the customers, in addition to credit, can now open a "Clean Account" in these locations, taking advantage of the extended working hours, 7 days a week.
- BACB actively works on lending to students under the Lending to Students and Doctoral Students Act with a total state guarantee limit of BGN 5,000,000 (EUR 2.556 million). The loan scheme of the Ministry of Education and Science allows BACB AD to expand and deepen its cooperation with state institutions in the country, as well as to attract new customers - students and doctoral students in accordance with the Bank's development strategy. There are a total of 63 active loans under the scheme for BGN 1,730,497 (EUR 884,789.06) with a 100% guarantee.

In its effort to be closer to its customers - individuals and to provide them with first-class service, BACB offers the possibility of online opening of the deposit "It's All Good" and "Online Deposit", Instant online loan; works on digitalization of the application for Mortgage Loan and other client processes and offers an extremely modern and convenient method of payment with the digital wallet B@CBPay.

In 2021 the Bank processed a total of 1,191,062 transfers for BGN 21 billion (EUR 10.737 billion), which is an increase by 21% in the number of transfers and by 27% in the amount of transfers compared to 2020. BGN transfers increased by 19% in number and currency transfers increased by 39%.
The Bank also handles the customer payments of 4 electronic money companies and in Q4 2021 communication was conducted to attract a fifth company as a customer of the Bank. In 2021 the Bank processed a total of 847,575 transfers for BGN 1 billion (EUR 511.291 million), which is an increase by 201% in the number of transfers and an increase by 151% in their amount compared to 2020. The fees collected from electronic money companies in 2021 amount to BGN 0.2 million (EUR 0.102 billion), representing an increase of 97% compared to 2020.
In 2021, 101 new documentary operations were processed for about BGN 30 million (EUR 15.339 million), which is an increase by 22% compared to 2020.
In 2021, the collected fees and commissions (excluding those from loans and cards) amount to BGN 9.1 million (EUR 4.653 million), which is an increase by 28% compared to 2020 (+BGN 2 million / EUR 1.023 million). 50% of revenues come from payments, 21% from accounts, 13% from cash transactions, 10% from storage fees, 5% from documentary transactions and 1% from others.
In 2021, digitalization, optimization and updating of the processes for attracting deposits from abroad were introduced, as well as electronicization in the processing of attachments.
In 2021 the Bank developed the functionality for processing Package Payments in BGN, which started on 31 January 2022. This is a large-scale migration, affecting all non-budgetary transfers in BGN in the country and represents a significant upgrade of the national payment system Bisera6. In 2021 the Bank and the serviced electronic money companies successfully participated in the National Tests for Package Payments organized by Borica and were duly certified by Borica as suppliers that are able to process them.
In pursuance of its strategy, the Bank also actively works on the implementation of process optimization, automation and digitalization of other processes that are processed in the division. Changes in the regulations and reporting are reflected in a timely manner and internal bank documents are updated.

For the period, the Bank reports a total of 11,342 debit cards issued and renewed and 232 credit cards.
In Q4 2021 the Bank realized revenues from the card business amounting to BGN 325,356.57 (EUR 166,352.17) and expenses of BGN 144,399.15 (EU 73,830.11) and compared to Q3 2021 there is a decrease by 5.16% of the net result on card operations.
The VISA tokenization project for the cards issued by BACB is in the testing phase by the participants before moving to a production environment.
All previously issued MasterCard Standard and VPAY have been early renewed with the new VISA debit product.
Together with Borica, the Bank managed to be certified by MasterCard regarding the requirement of the Card Organization to accept 8-digit BINs of POS devices.
Works have begun on the migration of the Bank's physical terminals to the new host of Borika Way4.

In EUR '000 consolidated	Q4 2021 (unaudited)	2020 (audited)	2019 (audited)
Net interest income	22 841	21 520	20 506
Fees and commissions, net	5 976	4 934	5 110
Total operating income	30 965	28 866	26 554
Total operating expenses	- 16 153	- 16 219	- 15 978
Operating profit/(loss)	14 812	12 647	10 576
Impairment of financial assets (provision allowance)	- 4 403	- 4 845	- 2 498
Revaluation of non-financial assets	- 124	-	- 14
Impairment of an investment in a business combination	-	-	- 90
Profit/(Loss) before tax	10 285	7 802	7 974
Profit/(Loss) for the period	9 244	7 016	7 671
Total assets	1 125 065	955 703	858 213
Loans to customers, net	637 444	587 066	522 554
Deposits from customers	975 815	815 542	721 138
Shareholders' equity	118 245	109 079	102 653
Capital Adequacy Ratio	17.11%	16.61%	15.39%

FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF BULGARIAN-AMERICAN CREDIT BANK 2021

The following is a discussion of the results of operations and financial condition of the Bulgarian-American Credit Bank (BACB or the Bank) and its subsidiaries ("the Group") for the year ended 31 December 2021. Investors should read this discussion together with the Bank's historical financial statements and the related notes and should not rely just on the key summarized information contained in this document. The Bank has prepared its financial statements for the year ended 31 December 2021 in accordance with IFRS. The financial information in this section has been extracted without material adjustment from the Bank's financial statements for the years ended 31 December 2021 and 2020 and the related notes there to or from the Bank's accounting records that formed the underlying basis of the financial information in those financial statements.

This section contains forward looking statements. These statements are subject to risks, uncertainties and other factors that could cause the Bank's future results of operations or cash flows to differ materially from the results of operations or cash flows expressed or implied in such forward looking statements. Save for the discussion contained herein management is not aware of any other trends, circumstances or risks for which there is a significant chance to affect the financial position and the results from operation of the Bank.

Certain figures contained in this document, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this document may not conform exactly to the total figure given for that column or row.

I. OVERVIEW AND SELECTED STATISTICAL INFORMATION

The following section contains a review that presents honestly and truly the development and the financial results of the Group and its condition, together with a description of the main risks the Group faces.
The following section contains an analysis of the main financial and non-financial activities results with regard to the economy activities of the companies in the Group, including information on the matters of ecology and employees.

The Bank is specialized in providing of secured finance to small- and medium-sized businesses in Bulgaria and at the same time searches for diversification of its portfolio through exposures to corporate customers and other sectors of strong fundamentals such as renewable energy as well as financing of projects that are contracted under the EU operational programs and last but not least - by expanding the range of services and products offered in the retail banking segment.

At 31 December 2021 the Group employed 367 people compared to 363 people on 31 December 2020.

The Group reports its results of operations in BGN and EUR

The constituent meeting of the shareholders of the Bank was held on 22 December 1995. The Bank is established and exists in compliance with the laws of the Republic of Bulgaria. The existence of the Bank is not limited in time. The Bank was registered with Sofia City Court on the grounds of a court decision of 3 December 1996 under Company Case No. 12587/1996, Lot No. 35659, Volume 397, Register I, Page 180, as a joint stock company under the 1991 Commerce Act after obtaining a license issued by BNB for performing banking activities. The Bank is registered with the Commercial Register and the Register of Non-Profit Legal Entities at the Registry Agency under UIC 121246419. The Bank is registered as an issuer of publicly offered bonds with the Register of Public Companies and Other Issuers of Securities, maintained by the Financial Supervision Commission ("FSC") under Lot No. 05-1082 according to decision No. 296-E/2001.

The Bank has the status of a public company and its shares are listed on the Bulgarian Stock Exchange – Sofia (BSE-Sofia code: BACB).

The seat and registered office of the Bank is at: 2, Slavyanska Str., Sredets District, Sofia Municipality, Sofia 1000, telephone: +(3592) 9058 377, fax: +(3592) 9445 010, email: bacb@bacb.bg and website: www.bacb.bg.

BACB operates through a head office in Sofia and operational offices in Sofia, Plovdiv, Varna, Burgas, Stara Zagora, Ruse, Pleven, Kardzhali, Veliko Tarnovo, Kozloduy, Chepelare, Pamporovo and Petrich. All offices offer the full scope of banking services, provided by the head office.

The Bank operates in compliance with Regulation (EU) 575/2013 regarding the prudential requirements, applicable to credit institutions and investment firms, the Credit Institutions Act and the regulations of BNB for its implementation, the Public Offering of Securities Act ("POSA") and the regulations of the FSC for its implementation, as well as the Commerce Act.
Important issues for investors in connection with the status of the Bank as a public company are regulated in the following regulatory instruments:

- Regulation (EU) № 597/2014 of the European Parliament and of the Council on market abuse;
- Corporate Income Tax Act;
- Income Taxes on Natural Persons Act; Foreign Exchange Act;
- Application of Measures Against Market Abuse of Financial Instruments Act;
- Markets in Financial Instruments Act;
- Ordinance No. 2 of the Financial Supervision Commission (FSC) on initial and subsequent disclosure of information in public offering of securities and admission of securities to trading on a regulated market;

The provisions of Section I, Chapter Eleven of POSA and the Ordinance on the disclosure of shareholdings in public and investment companies govern the requirements for disclosure of significant interest in the Bank. The Bank's transactions in treasury shares are regulated by Art. 111 (2) and (5) POSA and the Commerce Act. The mandatory auctions are regulated by Art.149, Art. 150-157A POSA, the Ordinance on the requirements for the content of the justification of the price of shares of a public company, including the application of valuation methods in the cases

of transformation, joint venture agreement and a tender offering, as well as in Ordinance 13 of 22 December 2003 on tender offering for the purchase and exchange of shares.
The conditions for the deregistration of the Bank from the Register of Public Companies and Other Issuers of Securities under Art. 30 (1) (3) of the FSC Act are regulated in APOSA and in Ordinance No. 22 of the FSC on the terms and conditions and the procedure for registration and deregistration of public companies, other issuers of securities and securities issues with the register of the FSC.

The Banks's accounting policies are similar to the ones implemented through the previous reporting period. There are no significant changes in the accounting policy, with the exception of the "Basic Elements of Accounting Policies" referred to in item 3 of the Annual Consolidated Financial Statements.

- **OPERATING AND FINANCIAL REVIEW AND RESULTS OF OPERATIONS ON CONSOLIDATED BASIS**

Results of Operations for the Years Ended 31 December 2021 and 2020

The following table sets out the Group's net profit for the year and the principal components thereof for the years ended 31 December 2021 and 2020, as well as the percentage variation within each line item.

	As of December 31		
	2021	**2020**	**Изменение 2011/2010**
	(' 000 EUR)		%
Data from the Consolidated Statement of Income			
Interest income	25 517	24 671	3.4
Interest expense	-2 676	-3 151	-15.1
Net interest income	**22 841**	**21 520**	**6.1**
Fees and commission income, net	5 976	4 934	21.1
Other non-interest income, net	2 148	2 412	-10.9
Operating Income	**30 965**	**28 866**	**7.3**
Operating expenses	-16 153	-16 219	-0.4
Impairment of financial assets	-4 403	-4 845	-9.1
Impairment of non-financial assets	-124	0	
Profit/(Loss) before tax	**10 285**	**7 802**	**31.8**
Tax income / (expense)	-1 041	-786	32.4
Profit/(Loss) from continuing operations	**9 244**	**7 016**	**31.8**
Profit/(Loss) from discontinued operations	-3	0	
Profit/(Loss) for the year	**9 241**	**7 016**	**31.7**
Data from the Consolidated Cash Flows Statement			
Net cash provided by (used in) operating activities	114 252	30 121	279.3
Net cash provided by (used in) investing activities	-23 810	-3 793	527.7
Net cash provided by (used in) financing activities	-4 516	-3 266	38.2
Net change in cash and cash equivalents	**88 553**	**21 082**	**320.1**

	As of December 31	
	2021	2020
Key Ratios		
Return on average total assets, %(1)	0.89	0.77
Return on average total equity, %(2)	8.13	6.63
Earnings per share, in € (3)	0.61	0.51
Shares Outstanding	24 691 313	24 691 313
Registered capital (in EUR)	12 624 468	12 624 468
Declared dividend (EUR per share) (4)	Виж (4)	Виж (4)
Cost/inome ratio, % (5)	52.17%	56.19%
Shareholders' equity/Total assets, % (6)	10.5	11.4
Tier 1 capital ratio	17.11	16.61

(1) Return on average total assets is calculated by dividing net profit/(loss) for the year by the average of total assets at the end of the period and at the end of the previous period.
(2) Return on average total equity is calculated by dividing net profit/(loss) for the year by the average of total shareholders' equity at the end of the period and at the end of the previous period.
(3) Earnings-per-share is calculated by dividing net profit/(loss) for the year by the average number of shares outstanding during the period.
(4) At the date of this report no dividend payment has been proposed to the Annual General Meeting of the Shareholders.
(5) Cost/income ratio is calculated by dividing operating expenses for the period by operating income for the period (excluding any losses or gains from foreign currency revaluation).
(6) Shareholder equity/Total assets is calculated by dividing total shareholders equity at the end of the period by total assets at the end of the period.

Among other things, the discussion below addresses the requirements of Appendix 10 of Ordinance No.2 of the Financial Supervision Commission, taking into account the specific activities of the Bank as a lending institution.

Net Interest Income
A number of factors affect the Group's net interest income. It is primarily determined by the volume of interest earning assets, such as loans and advances to customers, interest-earning securities which the Bank holds and loans to other credit institutions, and the volume of interest bearing liabilities, such as debt securities issued, loan facilities from international financial institutions, deposits from other credit institutions and customer deposits, as well as the difference between rates earned on interest earning assets, on the one hand, and rates paid on interest-bearing liabilities on the other.

Note 4 to the Consolidated Financial Statements for 2021 contains detailed breakdowns of the principal components of net interest income for the years ended 31 December 2021 and 2020.

Interest income is comprised of interest on loans and advances to customers paid to the Bank (98.1% of interest income for 2021), as well as these from "recognized at fair value through other comprehensive income" (1.4% of interest income for 2021) and interest on "measured at amortized cost" (0.5 % of interest income for 2021).

Interest income increased by EUR 846 thousand, or 3.4%, from EUR 24,7 million in the year ended 31 December 2020 to EUR 25,5 million in the year ended 31 December 2021. This increase was primarily a result of the loan portfolio dynamics during the year ended 31 December 2021, which registered progress to the expected recovery.

During the year ended 31 December 2021, interest income from loans and advances to customers report an increase and reach EUR 25 million or an increase by 4.2%, from EUR 24 million as at the end of 2020.
Irrespective that the interest income from loans increased as compared to the preceding year 2020, the unprecedented situation, caused by the Covid-19 pandemic, inevitably had an impact, resulting in the relatively low rate of this increase.

The interest income from "recognized at fair value through other comprehensive income" has been immaterial due to the limited size of such investments in the Bank's assets. Despite that in 2021 seeking higher profitability from its liquid assets BACB continued to maintain and increased its portfolio of Bulgarian government securities and corporate securities debt but the interest income generated from financial assets "recognized at fair value through other comprehensive income" decreased – from EUR 424 thousand as at the end of 2020 to EUR 323 thousand as at the end of 2021. The share of this type of interest income is on second place with 1.4% compared to 1.7% in 2020. The formed a portfolio of debt securities "measured at amortized cost" generated interest income in the amount of EUR 135 thousand which represents 0.5% of the interest income for 2021 (2020 - EUR 153 thousand and 0.6%).

Interest expense comprises amounts paid by the Bank as interest on funds deposited by customers and banks, interest on debt securities issued and other attracted funds, as well as interests on the asset.

Interest expense decreased by EUR 475 thousand, or 15.1%, from EUR 3,20 million in the year ended 31 December 2020 to EUR 2,7 million in the year ended 31 December 2021.

Interest expense on deposits from customers decreased by EUR 748 thousand, or 35.3%, from EUR 2,1 million in the year ended 31 December 2020 to EUR 1,4 million in the year ended 31 December 2021. The decrease resulted mainly from the significant decrease of the interests on deposit products repeatedly throughout the year, despite the reported increase of the total amount of the deposits from clients at the end of the year.

At the year ended 31 December 2021 the Bank registered interest expense on other borrowed funds in the amount of EUR 253 thousand, while for 2020 the reported expense was EUR 315 thousand (decrease by EUR 62 thousand or 19.7%). These interest expenses are mainly under the credit line from the Bulgarian Development Bank under the NAPRED program for BGN 35 million low-interest resource and signed in November 2018 a new agreement with BDB which is the first agreement for BDB under the EU COSME+ Program to support the small and medium-sized business in Bulgaria to 10 million EUR for a 10 year period.

During the period, the Bank recorded interest expense of EUR 1,013 million, which was formed from the paid negative interest on assets, mainly held by BNB (2020 - 582 thousand).

For the reported period the Group registers a significant increase of the net interest income (increase by EUR 1,321 million or 6.1%) on an annual basis or total amount of EUR 22,8 million. This is a result of increase of the interest income by EUR 846 thousand or 3.4% and decrease of interest expenses by EUR 475 thousand (-15.1%) with increase by EUR 160,3 million of the deposit basis. For the reported period the determinating factor for the formation of the net interest income remain the income from the credit activities. Reported income from interbank deposits amounted to EUR 9 thousand in Y 2021 against EUR 85 thousand for the previous year. Interest income from security portfolios amounted to EUR 487 thousand at the end of the year 2021. In line with the trend of decreasing the interest on deposit products in the banking system, BACB also decreased the interest on deposits levels several times over the past year, which nevertheless remain at attractive levels for the Bank's customers. Despite the significant increase in the deposit base since the end of 2014, there has been a significant reduction in resource costs on an annual basis.w

Net fees and commissions income

Fees and commission income is composed of fees in connection with current accounts, such as maintenance and money transfer fees; loan fees, such as prepayment, appraisal and guarantee fees; asset servicing fees and fees and commissions on settlement and brokerage operations.

Note 5 to the Consolidated Financial Statements for 2021 contains detailed breakdowns of the principal components of fees and commission income, and fees and commissions expense, for the years ended 31 December 2021 and 2020.

For the twelve months of 2021 Group reports net fees and commissions income in the amount of EUR 5,976 million. This result is EUR 1,042 million or 21.1% higer than and is mainly due to higer revenues from fees and commissions under contracts with customers.

With the greatest contribution of this income are the fees and commissions under payment services which report EUR 4,2 million compared to EUR 3,3 million in 2020 (increase by 29.6%) and share of 67.1% (2020 – 62.9%). The fees and commissions under deposit accounts increased from EUR 1,064 million in 2020 to EUR 1,346 million in 2021 and form 21.3% of the total amount of the fees and commissions income. The fees and commissions income under guarantees and letters of credit keep their volume from EUR 216 thousand in 2021 and share decrease from 4.2% in 2020 to 3.4%. The fees and commissions income under loans and advances to clients reached to EUR 446 thousand and form 7.1% of the total fees and commissions income and report an decrease by 23.6% compared to EUR 584 thousand reported in 2020. Other fees and commissions reached to EUR 67 thousand – share 1.1%.

The positions forming the Group's expenses for fees and commissions report an increase EUR 73 thousand or 28% from EUR 261 thousand in 2020 to EUR 334 thousand in 2021. The fees and commissions under bank cards report EUR 188 thousand with share of 76.9%, compared to EUR 188 thousand in 2020 with share 72%. The fees and commissions expenses under payment and other services in 2020 report EUR 77 thousand or an increase 5.5% (2020: EUR 73 thousand) and form 23.1% of all fees and commissions expenses (2020 – 28%).

Other non-interest income

Other net non-interest income decreased on net basis by EUR 264 thousand from EUR 2,41 million in Y2020 to EUR 2,15 million in the end of Y 2021 or -10.9 %.
The profit from financial assets at fair value tgrough profit or loss in 2021 reached EUR 150 thousand.
In 2021 the Bank does not report a result of debt securities reported at FVOCI, while for 2020 EUR 12 thousand loss was reported.
The net income from foreign exchange transactions increase by 31.9% - from EUR 1,1 million in 2020 to EUR 1,4 million in 2021.
In 2021 a profit of EUR 145 thousand was reported from the revaluation of assets and liabilities in foreign currency (2020: loss of EUR 55 thousand).
The direct administrative costs of investment properties and assets held for sale, as well as the generated revenue from the management of these properties, also affect the result.
Notes 6, 7 and 8 to the Consolidated Financial Statements for 2021 contain detailed breakdowns of the principal components of other non-interest income.

Operating Income

At the year ended 31 December 2021 the operating income (net) of the Group reach EUR 30,9 million compared to EUR 28,9 million in 2020. A number of factors affect the Group's operating income. The net interest income has the highest weight in total operating income for 2021 with share of 73.8%, followed by net fees and commissions income with 19.3% and other non-interest income (net) with 6.9%.

Operating Expenses

Operating expenses consist of administrative costs, incl. contributions to the Bank Deposit Guarantee Fund (BDIF) and the Bank Restructuring Fund (BRF), salaries and benefits and depreciation and amortization. Total operating expenses decreased by EUR 66 thousand, or 0.4%, from EUR 16,2 million during the year ended 31 December 2020 to EUR 16,1 million during the year ended 31 December 2021.

Personnel cost, incl. social security cost, increased by EUR 463 thousand (7.7%) compared to 2020 and represent 40.3% of the administrative expenses. The expenses to the Guarantee Insurance Fund and the Restructuring of Banks Fund amounted EUR 1,58 million. The total amount of these costs increased by 46.8% on an annual basis compared to the expenses in 2020. The share of these expenses is 9.8% of the total administrative expenses in 2021.
Rent cost increased by 12.8%, from EUR 195 thousand reported at the end of 2020 to EUR 220 thousand as at December 31st 2021.
Advertising expenses increased by EUR 143 thousand - from EUR 249 thousand in 2020 to EUR 392 thousand in 2021.
For further analysis of administrative expenses please refer to Note 9 of the consolidated financial statements.

The Group's depreciation and amortization expenses retain the amount of EUR 1,866 million.

Expenses for Impairment

The annual expense accrued for impairment of loans and advances to customers and financial assets (provisions) decreased by EUR 442 thousand from EUR 4,8 million in 2020 to EUR 4,4 million in 2021.
In 2021, the 'Impairment of financial assets' item in the statement of comprehensive income includes the recognized effect on modification of loans and advances of EUR 856 thousand5 (2020: EUR 293 thousands) as well as the net amount of direct write-offs: gain of EUR 19 thousand (2020: gain of EUR 20 thousands).

In 2021 the Bank has written off from the balance sheet unrecoverable receivables against allocated impairment provisions in the amount of EUR 12,8 million. The write-offs relate to loans, which the Bank believes are non-recoverable.

The total amount of provisions at 31 December 2021 was EUR 34,4 million compared to 43,6 million as at 31 December 2020, which is a decrease by 21.2%.

The NPLs with overdue more than 90 days decreased from 13.6% of the gross loan portfolio as at December 31, 2020 to 11.3% as at December 31, 2021.

The share of classied loans vs the gross loans is above the bank system average, with a downward trend from the end of 2011, but the aggregate amount of all classified loans, decreased from 17.6% of the Bank's gross loan portfolio at 31 December 2020 to 13.6% at 31 December 2021.

As a percentage to the gross amount of loans to customers, the provisions for impairment decreased from 6.9% at December 31, 2020 to 5.1% at December 31, 2021.

For further details, please, refer to *Selected Statistical Information* below.

Taxes
Tax expenses comprises the current tax expense and income or the deferred tax expense and income.
In 2021 the Bank reported profit before tax in the amount of EUR 10,3 million, current tax expense in the amount of EUR -1 012 thousand and a deferred tax expenses of EUR 29 thousand or total tax expenses EUR 1,041 million.
A pretax profit of EUR 7,8 million was recorded in 2020 and a current tax expense in the amount of EUR 812 thousand and deferred tax income of in the amount of EUR 26 thousand or total tax expenses EUR 786 thousand.

Net financial result for the year
The Group reported net profit of EUR 9,241 million for 2021 in comparison to net profit of EUR 7,016 million for the previous financial year or increase 31.7%.
The net profit for the year ended 31 December 2021 was caused by a combination of the factors discussed above in details.

- **CAPITAL RESOURCES**

Liabilities and Shareholders' Equity

The following table sets out the structure of liabilities and equity of the Bank at 31 December 2021 and 2020.

	As of December 31		Change
	2021	2020	2021/2020
	(' 000 EUR)		%
Liabilities			
Deposits from banks	95	0	-
Deposits from customers	975 815	815 542	19.7
Other borrowed funds	16 136	19 496	-17.2
Debt securities in issue	0	0	-
Other liabilities	14 774	11 586	27.5
Total Liabilities	**1 006 820**	**846 624**	**18.9**
Shareholders' Equity			
Share capital	12 624	12 624	0.0
Share premium	18 944	18 944	0.0
General reserve	74 882	67 984	10.1
Current year profit	9 241	7 017	31.7
Revaluation reserve	2 554	2 510	1.8
Total Shareholders' Equity			
Total Liabilities and Shareholders' Equity	**118 245**	**109 079**	**8.4**

In 2021 the liabilities structure of the Bank remains the same as in the previous period.

The Bank continued the successful implementation of its funding strategy with a focus on building a diversified customer deposit base. In the reporting period the deposits from customers increased by 19.7% to reach EUR

975,82 million (2020 – EUR 815,54 million) and were the major funding source for the Bank accounting for 98.4% of total attracted funds at the year-end (2020– 97.7%).

Since July 2015 the Bank has an effective agreement with the Bulgarian Development Bank for participation in the BDB Napred program for indirect financing for micro, small and medium business enterprices. The main goal of the program is the financing of the Bulgarian business under competitive terms and conditions the development of the economy, creating new jobs and investing in regions with high unemployment. Under the agreement BACB utilizes a line of credit in the anount of BGN 35 million for financing projects in compliance with the program's aims.
In November 2018 The Group signed a new agreement with BDB which is the first agreement for BDB under the EU COSME+ Program to support the small and medium-sized business in Bulgaria. COSME+ Program is implemented with the support of the European Fund for Strategic Investments. Its purpose is to facilitate the access to long-term and cheap financing for SME companies while reducing the requirements towards the collateral under the loans. Under the agreement the Group will receive up to 10 million EUR for a 10 year period for providing investment loans, working capital and guarantees to its clients.

The share of other attracted funds in the BACB liabilities decreased by 17.2% compared to the reported at the end of 2020 - from EUR 19,5 million to EUR 16,1 million. This determines the second position of the entry in the structure of the liability with 1.6%.

As of 31.12.2021 the funds attracted from banks amount to BGN 185 thousand, as at the end of 2020 there are no resources attracted from banks.
The Bank started accepting institutional deposits in 2000 and retail deposits in 2001. In 2013 The deposits form customers kept its high level, reporting nominal decrease to EUR 310 million. The level is kept in 2014, reporting a slight increase to EUR 317 million. In 2015 the deposits reach EUR 411 million and in 2016 - 430.3 million in 2017 – EUR 511.02 million, in 2018 – EUR 604.13 million, in 2019 – EUR 721.14 million, in 2020 – EUR 815.54 million and in 2021 – EUR 975,82 million. Aiming to achieve independence and diversification of the sources for financing in 2015 the Bank begun presenting deposit products for persons and households on the German market, and from beginning Q2 2017 begun presenting deposit products for persons and households on the Spanish market. At Y/e 2021 the deposits from Germany represent 3.6% and deposits from Spain represent 0.7% of the total deposit base, banks excluded. Due to the large number of clients, there is no separate client with a share of BACB's expenses larger than 10%.

As at Dec 31, 2021 the Bank had no loans from international financial institutions or international banks.

As a result of the changed liabilities structure, as discussed above, the Bank's average cost of funding decreased from 0.42% for 2020 to 0.29% for 2021.

The Bank is subject to, and is in compliance with, the capital adequacy requirements of the BNB. The minimal levels of capital adequacy in Bulgaria are set forth in Regulation 575/2013, as per which the institutions in any moment have to qualify the following capital requirements:

- Ratio of the basis Tier 1 capital 4.5%;
- Ratio of Tier 1 capital 6%;
- Total capital adequacy ratio 8% (before buffers);

As at 31 December 2021 the Group's total capital adequacy ratio amounts to 17.11% (above the requirements of BNB) despite of the additional provisions for credit risk (Y2020 – 16.61%).

Management believes that the high capital ratio of the Bank is consistent with the risk profile of its assets.

- **LIQUIDITY**

As of 01.01.2018 г. the Liquidity Asset Ratio (under BNB Ordinance 11) was replaced by a Liquid Coverage Ratio (LCR), which was 195.56 % as at 31.12.2021.

The Group follows the principles of diversification of sources of financing and optimization of interest costs in pursuance of the strategy for securing its liquidity needs.

At the end of 2021, the Group maintained a stable deposit base and reported an increase in customer deposits of 19.7% compared to the end of 2020. The Bank's active deposit activity contributed to a reduction in its dependence on external financing. The Bank continues to carry out successful deposit-taking of individuals from Germany, as of March 2017 started collecting deposits for individuals and on the Spanish market.

The ratio of gross customer loans to customer deposits is 68.9% at December 31, 2021.

The liquidity position of the bank remains strong as the liquid assets (cash and balances and funds on accounts with BNB, short-term loans and advances to banks and liquid securities - government and corporate) amounted to EUR 374,16 million. The ratio of the liquid assets to the total deposit amounts (clients and banks) is 37.72% at December 31, 2021.

In 2021 the Group formed a debt securities portfolio, accounted with fair value in other comprehensive income in the amount of EUR 38,4 million (2020: EUR 28,6 million) or an increase by 34.2%. The cash and advances with BNB and other banks increased by EUR 91.1 million.

As at 31 December 2021 the Group reports a portfolio of debt securities held for accounting with amortization value in the amount of EUR 37 million (2020: EUR 19p31 million), which includes Bulgarian and foreigh government bonds with fixed payments and maturity. The Bulgarian securities are held entirely in connection to the regulatory requirement of securitization of the attracted funds from government and budget clients.

As at 31 December 2021 the government bonds portfolio is with balance value of EUR 70,3 million (2020: 43,9 million), from which financial assets, appraised by fair value in other comprehensive income of EUR 33,3 million and financial assets, accounted by amortization value of EUR 37 million (2019: EUR 24,6 million and EUR 19,3 million).

Since the beginning of the period in connection to completed investments in debt securities accounted with fair value in other comprehensive income there are no reported gains of losses in connection with completed investments (2020: loss - EUR 12 thousand). The unrealized profits and losses from reappraisal of the financial assets, accounted with fair value in other comprehensive income, are deferred in equity account, net of taxes. Interest income from debt instruments at fair value in other comprehensive income is currently recognized in profit or loss, as for Y 2021 they amount to EUR 352 thousand.

- **SELECTED STATISTICAL INFORMATION**

Average Balances and Related Interest Rates: Assets

	As of December 31					
	2021			2020		
	Average Balance **(1)**	Interest income	Average interest rate **(2)**	Average Balance **(1)**	Interest income	Average interest rate **(2)**
	000 EUR	*000 EUR*	*%*	*000 EUR*	*000 EUR*	*%*
Due from other banks	56 974	9	0.01	52 471	85	0.17
Loans and advances to customers, net	612 255	25 021	4.06	554 810	24 008	4.37
Investment securities-available-for-sale	33 522	352	1.01	31 617	424	1.42
Investment securities-hold-to-maturity	28 169	135	0.47	15 315	153	0.88
Total interest earning assets	**730 920**	**25 517**	**3.35**	**654 213**	**24 670**	**3.81**
Non interest earning assets	309 464	0		252 628	0	
Total Assets	**1 040 384**	**25 517**	**2.48**	**906 841**	**24 670**	**2.88**

(1) Average balance is the arithmetic average of the opening and closing balances for each period. Note that the average balance calculated on a daily basis, monthly basis, or weighted average basis may be different to the average balance calculated on an annual or semiannual basis, and these differences may be substantial.;
(2) Average interest rates were calculated on the basis of management accounts using average monthly balances.

Average Balances and Related Interest Rates: Liabilities

	As of December 31					
	2021			2020		
	Average Balance **(1)**	Interest expense	Average interest rate **(2)**	Average Balance **(1)**	Interest expense	Average interest rate **(2)**
	000 EUR	*000 EUR*	*%*	*000 EUR*	*000 EUR*	*%*
Deposits from banks	47	0	0.01	0	0	0
Deposits from customers	895 679	1 370	0.15	768 340	2 119	0.29
Other borrowed funds	17 817	253	1.38	20 551	315	1.51
Debt securities outstanding	0	0	0	0	0	0
Interest bearing liabilities	**913 543**	**1 623**	**0.18**	**788 891**	**2 434**	**0.35**
interest bearing liabilities	**2 804**	**39**	**1.39**	**4 389**	**135**	**3.08**
Non interest bearing liabilities	10 375	1013	-	8 043	582	-
Shareholders' Equity	113 662	-	-	105 518	-	-
Total Liabilities and Shareholders' Equity	**1 040 384**	**2 675**	**0.29**	**906 841**	**3 151**	**0.42**

(1) Average balance is the arithmetic average of the opening and closing balances for each period. Note that the average balance calculated on a daily basis, monthly basis, or weighted average basis may be different to the average balance calculated on an annual or semiannual basis, and these differences may be substantial.
(2) Average interest rates were calculated on the basis of management accounts using average monthly balances.

Volume and Rate Analysis

As of December 31

	2021			**2020**		
	Net Change Due to			**Net Change Due to**		
	Volume (1)	Rate (2)	Total	Volume (1)	Rate (2)	Total
	(€ 000)			(€ 000)		
Due from other banks	3	-80	-77	-56	-375	-431
Loans and advances to customers	2 703	-1 691	1 012	3 175	-2 026	1 149
Investment securities-available-for-sale	51	-123	-72	67	-76	-9
Investments securities – hold-to-maturity	54	-72	-18	57	-52	5
Change in interest income	**2 811**	**-1 966**	**845**	**3 243**	**-2 529**	**714**
Deposits from banks	0	0	0	0	0	0
Deposits from customers	259	-1 008	-749	227	-844	-617
Other borrowed funds	-57	-101	-158	-10	-28	-38
Debt securities outstanding	0		0	-33		-33
Change in interest expense	**202**	**-1 109**	**-907**	**184**	**-872**	**-688**
Net change in interest income	**2 609**	**-857**	**1 752**	**3 059**	**-1 657**	**1 402**

(1) The net change due to a change in volume is the change in the average monthly outstanding balance multiplied by the average interest rate for the current period.;
(2) The net change due to a change in interest rate is the change in the average interest rate multiplied by the average monthly outstanding balance for the prior period.

Average Interest Earning Assets, Yields, Margins and Spreads

	As of December 31	
	2021	**2020**
	(€ 000, except in %)	
Average Interest Earning Assets	730 920	654 213
Interest Income	25 517	24 670
Net Interest Income	22 841	21 520
Average Yield (1)	3.35%	3.81%
Average Margin (2)	3.12%	3.29%
Average Spread (3)	3.17%	3.46%

(1) Average yield is interest income expressed as a percentage of average monthly interest earning assets for the period.

(2) Average margin is net interest income divided by average monthly interest earning assets for the period.

(3) Average interest spread is the spread between average interest on assets and average interest on liabilities, the latter presented as a percentage of the interest expenses to interest on liabilities

Loan Portfolio: By Currency

	As of December 31			
	2021		2020	
	000 EUR	*%*	*000 EUR*	*%*
EUR	269 932	40.2	282 538	44.80
USD	31 002	4.6	33 775	5.36
BGB	370 875	55.2	314 337	49.84
Total	**671 809**	**100**	**630 650**	**100**

Loan Portfolio: By Size

	As of December 31					
	2021			2020		
	No. of loans	*(€ 000)*	*% of LP*	*No. of loans*	*(€ 000)*	*% of LP*
Under 10,000	11324	14 816	2.2	11781	13 007	2.1
10,000 - 100,000	3236	112 873	16.8	2645	90 984	14.4
100,000 - 1,000,000	622	147 570	22.0	544	137 891	21.9
Over 1,000,000	130	396 550	59.0	112	388 768	61.6
Total	**15 312**	**671 809**	**100**	**15 082**	**630 650**	**100**

Loan Portfolio: Diversification under Industry Sectors

Industry Sector	2021		2020	
	Loan portfolio Gross before ECL allowance	Loan portfolio Net	Loan portfolio Gross before ECL allowance	Loan portfolio Net
Mortgage loans - residential	107 169	106 833	70 896	70 401
Real estate construction	77 633	66 486	64 943	49 968
Hotels	60 880	59 139	62 258	60 916
Wholesale distribution	59 857	58 789	58 397	56 357
Consumer loans to induvidials	37 950	33 813	34 812	31 704
Primary agriculture and farming	38 382	37 708	41 715	40 549
Electricity production	36 276	36 178	38 689	38 568
Transportation	35 595	35 048	39 899	39 334
Furniture and wood products	25 017	21 834	25 695	21 802
Food processing	24 589	24 021	24 169	24 041
Real estate investment&Land development	23 004	17 637	15 109	8 970
Chemical industry	21 058	21 033	20 346	20 279
Financial services	17 981	17 725	12 138	11 777
Waste collection and recicling	15 204	15 204	16 863	16 862
Retail	13 350	13 243	11 527	11 013
IT services	12 395	12 392	15 443	15 437
Production of metal products and equipment	11 408	11 352	7 414	7 413
Entertainment and Recreation	8 958	8 431	9 160	8 684
Light industry	7 857	5 657	8 015	5 210
Professional and other services	7 396	7 365	11 808	11 111

Mortgage loans - commercial	4 773	3 593	9 679	6 427
Other	25 077	23 963	31 675	30 243
Loans and advances to customers	**671 809**	**637 444**	**630 650**	**587 066**

Credit portfolio analysis: Large exposures

Large Exposures (Including Unutilized Loan Commitments) before impairment

	As of December 31			
	2021		2020	
	(€ 000)	*% of Capital base*	*(€ 000)*	*% of Capital base*
Largest total exposure to a single client group	20,365	19.2	19,767	
Agregate of five largest exposures	87,070	81.9	93,328	
Agregate of all largest exposures – over 10% of equity	178,763	168.1	166,286	

Non-Equity Funding: Sources of Non-Equity Funding by Category, Amount and Percentage

	As of December 31			
	2021		2020	
	(€ 000)	*% of Total*	*(€ 000)*	*% of Total*
Deposits from Banks	95	0.0	0	0.0
Deposits from Customers	975 815	98.4	815 542	97.7
Other attracted funds	16 136	1.6	19 496	2.3
Debt Securities	0	0.0	0	0.0
Total Funding	**992 046**	**100**	**835 038**	**100**

Non-Equity Funding: Deposits by Type and Currency

	As of December 31	
	2021	2020
	000 EUR	*000 EUR*
Demand deposits		
in EUR	142 098	112 128
in BGN	451 790	298 712
in USD	36 635	24 379
in GBP	57	683
Total	**630 580**	**435 902**
Term deposits		
in EUR	178 379	124 439
in BGN	125 712	214 727
in USD	41 185	39 627
Other	54	847

Total	**345 330**	**379 640**

Non-Equity Funding: Deposits by Type and Customer group

	As of December 31	
	2021	**2020**
	000 EUR	*000 EUR*
Demand deposits		
Bank	95	-
Institutional	526 856	386 517
Individual	103 629	49 385
Total	**630 580**	**435 902**
Term deposits		
Bank	0	0
Institutional	50 140	70 921
Individual	295 190	308 719
Total	**345 330**	**379 640**

Off-Balance Sheet Liabilities: By Type

	As of December 31			
	2021		**2020**	
	(€ 000)	*%*	*(€ 000)*	*%*
Bank Guarantees	11 329	16.5	10 304	22.9
Letters of Credit	4 267	6.2	15	0.0
Unutilised Loan Liabilities	53 250	77.3	34 626	77.0
Total	**68 846**	**100**	**44 945**	**100**

Off-Balance Sheet Liabilities: By Maturity

	As of December 31, 2021				
	Maturity within 1 month	**Maturity after 1 month but before 3 months**	**Maturity after 3 months but before 6 months**	**Maturity after 6 months but before 12 months**	**Maturity after 1 year**
			000 EUR		
Bank Guarantees	852	1 832	2 341	2 087	4 217
Letters of Credit	812	3 281	0	174	0
Unutilised Loan Liabilities	2 284	1 103	7 114	10 518	32 231
Total	**3 948**	**6 216**	**9 455**	**12 779**	**36 448**

- **ECOLOGY AND EMPLOYEES**

Ecology

In 2021, the Bank continued to pursue its goal of strengthening its position as a "green bank", supporting initiatives in the field of "green economy" and sustainable development, offering customers quality and reliable financial services and ensuring profitability for shareholders.
The Bank's lending policy continued to focus on projects aiming at green economy development, financing of business ventures related to energy saving and renewable energy sources, projects under the EU funds in the field of energy efficiency and environmental protection, as well as providing innovative solutions for businesses.

In 2021 the Bank participated in the following "green" initiatives and programs:

- Green BACB Express: providing the first in Bulgaria fully digital consumer loan. A completely paperless procedure has been developed, which supports nature protection by avoiding printing up to 140 pages in the course of the procedure of signing a standard consumer loan agreement. Since the launch of Green BACB Express until today, the Bank has avoided printing of 400,396 paper pages and saved 25 trees.
- Instant Online Loan - creating a new, fully digital loan that supports nature protection by avoiding printing up to 140 pages per loan. Since the launch of Instant Online Loan until today, the Bank has avoided printing of 184,320 paper pages and saved 11 trees.
- Bulgarian American Credit Bank has won the prize for the Greenest Bank for 2021 in the b2b Media contest for "The Greenest Companies in Bulgaria";
- "Garbage Books", together with Credo Bonum Foundation - sponsorship of BACB AD in the amount of BGN 6,000, including VAT, and arrangement of an advertising campaign for the environmental initiative in the Bank's office network.

Employees and staff management
The Bank's strategy for human resources management aims to increase the efficiency of employees and improve their performance.
The professional development program of the Bank's employees provides an opportunity for professional development in accordance with the individual capabilities, knowledge, experience, competence, interests and motivation of the employees. The Human Resources Management Framework regulates the working conditions and improves the working environment, stimulates the building and maintenance of relations based on honesty, fairness, trust, teamwork and continuity, provides an objective assessment of employment and workload of the individual employees and structural units.

In 2021 the Group incurred expenses for trainings, seminars and enhancing the qualification of the employees at the amount of EUR 8.2 thousand.

- **RISK FACTORS / DESCRIPTION OF THE MAIN RISKS FACING THE BANK**

Risks related to the Bank
The Bank's operations depend on risk factors that may affect its future performance or its ability to continue as a going concern. Some of these risks can be mitigated by applying preventive measures, introducing control mechanisms, appropriate systems. However, some risks are beyond the Bank's control and cannot be mitigated. The main factors related to the Bank are listed below. These factors should not be regarded as complete and comprehensive statements of all potential risks and uncertainties because there may be risks or uncertainties of which the Bank is not aware or which BACB does not consider significant but which in the future may become such.

Impact of COVID 19 epidemic
The spread of COVID 19 has led to an unprecedented global situation that could have a negative impact on the Bank's profitability and solvency. With the entry in the recovery phase, the focus shifted from immediate constraints and negatives to the structural changes and the nature of recovery. Although no significant negative effects were reported in the past 2021, it is expected that the main highlights and/or risks in the Bank's operations will be related to:

- potential deterioration in portfolio quality as a result of financial difficulties for borrowers operating in the most affected sectors or adversely affected by the disrupted supply chains;
- reduction of profitability as a result of the limited economic activity and narrowed interest margins on the market;
- delay in lending, both due to the limited economic activity and due to the need to raise credit standards, the difficulty of assessing the credit risk of the counterparty due to the uncertainty of the environment;
- reduction of the market value of the portfolios of securities and corporate investments;

- reduction of other revenues from fees and commissions, foreign exchange trading – a consequence of the slowdown in economic activity and lending;

In the past year 2021, the Management has taken a number of actions to limit potential future negatives:
- an emergency plan has been activated,
- the critical functions and the scope of the employees to ensure their continuity are defined,
- safe environment and remote operation mode are provided,
- active monitoring and management of incoming and outgoing cash flows is carried out,
- active remote communication with borrowers is carried out

The development and success of the Bank depend to a large extent on the state of the Bulgarian and the global economy and in particular the Eurozone.
Banking activity in Bulgaria depends on the general level of economic activity in the country and worldwide, and in particular in the Eurozone. As a result of this dependence, the Bank's activities, the results of its operations and its financial condition largely depend on the state of the global, European and Bulgarian economies, which in turn affects the growth of lending, the interest income and interest expense and the ability of borrowers to pay their debts on time. Any adverse change in one or more macroeconomic factors, such as interest rates, inflation rate, wage levels, unemployment rate, foreign investment, international trade, etc., may have a material adverse effect on the Bank's performance, the results of its operations and its financial condition.

The degree of diversification of funding sources and the changes in the regulatory framework may require changes in the choice of resource and lending policy strategies.
After a period of limited access to finance in the years after the international financial crisis, the Bank successfully seeks to expand its sources of funding from the local market through increased emphasis on attracting customer deposits, attracting target lines for financing SMEs from local credit institutions and bond issuing, but prolonged restrictions on wholesale financing may lead to lower business growth and/or lower profitability. As a result, the liquidity of the Bank, its financial position and the results of its operations may be adversely affected.
Currently, the price of the attracted resources of the Bank mainly depends on the competitive conditions on the local market and the amount and the price of the institutional financing also depends on the rating/profile of the Bank.

On 20 April 2021 and 13 September 2021 "BACR - Credit Rating Agency" AD updated the ratings assigned to BACB AD.

Financial strength rating	Primary Rating July 27, 2016	Updated Rating July 26, 2017	Updated Rating July 30, 2018	Updated Rating April 17, 2019	Updated Rating April 17, 2020	Updated Rating April 20, 2021	Updated Rating September 13, 2021
Long-term rating	**B**	**B+**	**B+**	**BB-**	**BB-**	**BB-**	**BB-**
Outlook	stable	stable	positive	stable	stable	positive	stable
Short-term rating	**B**	**B**	**B**	**B**	**B**	**B**	**B**
National-scale long-term rating	**B+ (BG)**	**BB- (BG)**	**BB (BG)**	**BB+ (BG)**	**BB+ (BG)**	**BBB-(BG)**	**BBB (BG)**

Outlook	stable	stable	positive	stable	stable	positive	stable
National-scale short-term rating	**B (BG)**	**B (BG)**	**B (BG)**	**B (BG)**	**B (BG)**	**A-3 (BG)**	**A-3 (BG)**

The increased competition in the Bulgarian banking sector may reduce the interest margins of market participants or otherwise affect the Bank's competitive position

The strong competitive environment and the economic conditions in the country may lead to shrinking the Bank's interest margin as a result mainly of declining interest rates on loans. This may limit the recapitalization effects, the results of the Bank's operations and may adversely affect the financial profile as a whole. Strengthening the Bank's success in increasing its deposit base will depend on its willingness and ability to structure deposit products that offer competitive conditions and interest rates, as well as to advertise and sell these deposit products in the context of its limited branch network. The Bank's future success in lending will depend on its ability to remain competitive compared to the other financial institutions in this segment through greater flexibility and efficiency and the offering of a wider range of products.

Customer / industry orientation and sensitivity of the Bank's customers to adverse developments in the economy

Small and medium-sized enterprises are more likely to be adversely affected by adverse economic developments than large companies. The fact that the Bank is focused on lending to SMEs suggests that it is exposed to a relatively higher level of risk than it would be if it offered a wider range of banking services mainly to large companies.

The Bank continues to successfully generate new business by granting new loans in various sectors of the economy, and gradually the new portfolio begins to offset the negative effect of loans granted to the construction sector in the years before the economic crisis. Structurally, efforts continue to focus on balancing and diversifying the loan portfolio through exposures to small and medium-sized enterprises and economies with sustainable performance indicators, such as processing industry and agriculture.

A prolonged decline in some of the main sectors in which BACB actively provides lending may lead to lasting financial difficulties for the Bank's customers in these sectors and increase the risk of credit losses, which may have a significant adverse effect on the Bank's performance, the results of its operations and its financial condition.

A significant percentage of the Bank's customer base is concentrated in a limited number of economic sectors

The loan portfolio of BACB is spread across various economic sectors. The decision to increase investment in a particular sector depends on the Bank's assessment of the growth potential of this sector. Proper diversification of the portfolio (as a whole and within each sector) is one of the main goals of the credit risk management of the Bank. The annual review process of the risk management policy includes the expansion of the system of internal limits and early warning indicator with the goal of ensuring adequate control and management of risks. For achieving better diversification, the risk management policy sets a limit for exposure to a single economic sector up to 15% of the total portfolio.

Despite the restrictions, a prolonged decline in some of the main sectors in which BACB actively provides lending may lead to lasting financial difficulties for the Bank's customers in these sectors and increase the risk of credit losses, which may have a significant adverse effect on the Bank's performance, the results of its operations and its financial condition.

A substantial percentage of the Bank's loan portfolio is concentrated in a limited number of customers

The Bank limits the credit risk and the concentration risk by defining limits for the credit exposures to single borrower or to a group of related borrowers. The adherence of the limits is subject to an ongoing control, while the adequacy of the defined limits is reviewed regularly. At the end of 2021 part of the loan portfolio is concentrated in a limited borrowers. There is a possibility for the Bank's activity, financial condition and activity results to be negatively influenced by continuous slowdown of the business climate recovery, which may result in default of the obligations of some of the largest borrowers. As at Y/E 2021 and 2020 the twenty largest exposures (including loans, bank guarantees and other credit forms) represent 34.4% and 36.2% of the loan portfolio respectively.

Risks related to the creditworthiness of borrowers and counterparties are inherent in the Bank's operations

Adverse changes in the creditworthiness of the Bank's borrowers and counterparties, including deteriorating the conditions in the Bulgarian, European or global financial systems due to increased systemic risks, may reduce the collection of loans and the value of assets. The accumulation of provisions for impairment may have a material adverse effect on the Bank's operations, operational performance and financial position.
For 2021 the Bank accrued provisions for impairment of loans and advances to customers in the amount of EUR 12 767 thousand compared to EUR 6 538 thousand in 2020. The impairment costs in 2021 report EUR 4,4 million (2020 – EUR 4,8 million)

The Bank's failure to adequately manage and control its loan portfolio could have a material adverse effect on its operations

The loan portfolio has grown consistently since 2014, when an increase by 9.48% was reported mainly because of the growth in the gross loan portfolio. This trend continued in 2015, 2016, 2017, 2018, 2019, 2020 and 2021 with 14.6%, 16.3%, 10%, 13.9%, 9.6%, 11.9% and 6.8% respectively. The Bank constantly monitors the quality of the loans granted and the adequacy of the provisions. This process is combined with the continuous development of risk management strategies and systems. The Bank is actively seeking to diversify its portfolio through exposures to corporate customers and economic sectors with sustainable performance indicators, as well as through the development of retail banking. Failure to manage and maintain the quality of the Bank's loan portfolio or asset growth may have a material adverse effect on the Bank's operations, its operational performance and financial position.

The Bank is subject to risks that could adversely affect its operations and performance if the Bank's risk management policy fails
Like any bank, BACB faces various types of risk that may adversely affect it. This includes, but is not limited to: credit, market, currency, interest rate, liquidity, investment and operational risks. Although the Bank invests significant time and effort in developing risk management systems and strategies, these systems and strategies may fail in certain circumstances, in particular when faced with a risk that the Bank has not identified correctly or in a timely manner. Moreover, the risk methodologies and techniques may not cover the full range of risks that the Bank may face. If such risks materialize, the losses may be greater than the Bank has expected, which may have a material adverse effect on the Bank's operations, operational performance and financial position.

The Bank operates in a highly regulated environment and any changes in the applicable legislation, in the interpretation or the practice of implementing legislation, or the Bank's failure to comply with this legislation may have a significant adverse effect thereon
The Bank is subject to numerous regulations (rules) designed to maintain the stability of the banking system. These rules are contained in laws and regulations, in particular EU regulations and directives as well as in regulations adopted by the Bulgarian National Bank, and may limit the Bank's operations, and the changes therein may increase the Bank's costs of carrying out its operations. In addition, violations of these ordinances and instructions may expose the Bank to sanctions, including, in extreme cases, revocation of the banking license. Changes in banking laws and regulations, or in the manner they are interpreted or implemented, may have a material adverse effect on the Bank's operations, operational performance and financial position.

The Bank may need a capital increase in the future
The requirements to the Bank's equity (capital base) depend on a number of factors, including asset growth and profit, regulatory capital adequacy requirements and potential asset acquisitions. The deterioration of the quality of the Bank's loan portfolio may exceed the expectations and lead to a requirement for additional capital. The effective capital management of the Bank is essential for its ability to operate, grow organically and pursue its strategy. Any change that limits the Bank's ability to manage its assets and capital effectively (including, for example, reduction in profit and reinvested earnings as a result of impairment expenses or other reasons, increase in risk-weighted assets, delays in the sale of certain assets, etc.) or gain access to sources of financing may have a material adverse effect on the financial position or equity position of the Bank in accordance with the regulatory requirements. The Bank's Management is not able to accurately predict the size and timing of when the Bank would need more equity.

The minimal levels of capital adequacy in Bulgaria are set forth in Regulation 575/2013, as per which the institutions in any moment have to qualify the following capital requirements:
- Ratio of the basis Tier 1 capital 4.5%;
- Ratio of Tier 1 capital 6%;

- Total capital adequacy ratio 8%;

In addition, Ordinance 8 of BNB stipulates additional capital buffers that banks have to keep above the minimum capital requirements and which as at December 31 2021 and December 31 2020 are the following:

- Precautionary capital buffer equal to 2.5% of the amount of the total risk exposure of the Bank;
- Anti-cycle capital buffer – 0.5% of the of the amount of the total risk exposure of the Bank;
- System risk buffer – 3% of the amount of the total risk exposure of the Bank;
- A buffer for a global systemically important institution;
- A buffer for another systemically important institution.

The Bank reviews and analyses on a monthly basis its capital position and prepares quarterly reports for supervision purposes, which are presented to BNB pursuant to the regulatory requirements. The gradually performed of stress tests review the effect of the portfolio quality deterioration and/or the impairment of the existing collaterals on the portfolio quality as well as on the capital position of the Bank. The capital buffers are evaluated periodically and measures for their maintenance and increasing are undertaken.

The Group's capital adequacy ratio as at 31 December 2021 of 17.11% is above the minimum levels set by Regulation 575/2013. The capital position of the Bank depends on many factors such as the increase of the loan portfolio and income, regulatory capital requirements. Any change that limits the capability of the Bank to actively manage its balance and capital requirements, for example additional deterioration of the loan portfolio quality, decrease of the profit as a result of accruing additional impairment provisions, increase of the risk assets, slowdown of the assets disposition, may lead to decrease of the capital buffers and additional capital requirement. Events outside the Bank's control may also result in additional funding requirements, including changes to regulatory capital requirements or worsening of the global economic and market conditions.

Any additional financing of the Bank by increasing the share capital may have a "diluting" effect on the Bank's shareholders and possible debt financing or other forms of attracting resources, if possible, may reduce the profitability of the Bank and lead to restrictions on future funding and operational activities. In addition, if it does not have the necessary equity, the Bank may be subject to increased regulatory supervision and intervention, and its operations, operational performance and financial position may be adversely affected.

The Bank is dependent on experienced employees and the competition for such employees in the market may be fierce

The success of the Bank depends, to a large extent, on its ability to recruit, retain and motivate its senior managerial staff, as well as other qualified and experienced employees at the expert or managerial level. The Bank's inability to attract, encourage and retain qualified staff may have a material adverse effect on the Bank's operations, operational performance and financial position. The successful implementation of the Bank's business plan to some extent depends on its ability to hire and retain qualified operational, financial and technical specialists on the Bulgarian labour market.

The Bank's system for ensuring compliance with the legislation and its internal rules may not be fully effective

The Bank's ability to comply with all applicable laws and regulations depends to a large extent on the establishment and maintenance of compliance, audit and reporting systems, as well as its ability to retain qualified personnel competent in the issues concerning the applicable legislation, control, audit and risk management. Although the Bank's Management believes that there are adequate systems and procedures in place, there is no full guarantee that they are fully effective in the changing market environment. The Bank is subject to intensive supervision by regulatory authorities, including regular checks. The Bank limits the risk of actual or alleged non-compliance with the rules or, respectively, the likelihood of bringing in administrative proceedings, litigation against the Bank with significant interest, including claims of customers for compensation, through regular internal review of its intrabank regulations and control procedures.

The Bank is dependent on complex information systems

The Bank is dependent on complex information systems, including management information systems, and the possible failure, inefficiency or disruption of these systems may have a significant adverse effect on the Bank.

In general, information systems are exposed to numerous problems, such as infecting with computer viruses, hacking attacks, software and hardware failures. Any lack, interruption or breach of the security of these systems may result in problems or interruptions in the relations with customers, the risk management, the accounting system and the deposit and credit servicing systems. If the information systems of the Bank cease to function normally, even for a short period of time, the Bank may be unable to serve its customers for a certain period of time and lose them. Also, the temporary shutdown of information systems may result in extraordinary costs for the recovery and validation of the information. In addition, any failure of the Bank to update and develop its existing information systems as effectively as the Bank's competitors do, may result in lagging behind its competitors. Although the Bank's Management believes that there is an adequate security program and emergency action program, including a fully equipped backup information center, there is no assurance that these measures will be sufficient to prevent such problems or to ensure that the Bank's operations will not be significantly hampered.

Any of these or other problems related to the Bank's information systems may have a material adverse effect on the Bank's operations, operational performance and financial position.

Risk management

Review
The Bank has established risk management policies and procedures to identify, monitor and manage the levels of risk for the Bank in performing its operations. The risk management and control policy is adopted by the Management Board and approved by the Supervisory Board. The document governs the organization of the activities for the fulfilment of the strategic objectives, the risk management framework and the risk tolerance, adopted by the Supervisory and Management Boards of the Bank. The risk management and control policy and rules set evaluation methods for various types of risks to which the Bank is exposed (including, but not limited to: credit risk, liquidity risk, interest rate risk, foreign currency risk and contractor credit risk, define the connections between the individual structural units in the management of the risks and establish an early warning system of limits and indicators, reflecting the risk tolerance, adopted by the Bank. The main objective of the risk policy is to impose clearly defined parameters on the Bank's operations in order to minimize the potential adverse effects of the risks on the Bank's financial performance. Compliance with the various requirements of the risk policy is reviewed on a regular basis, depending on the level of risk and potential impact on the operations of the Bank. Any deviation from the internal standards adopted by the Bank is reported to the Bank's Management and appropriate measures should be taken. The risk management policy is reviewed on an annual basis in order to apply adequate and efficiently functioning risk management and control systems. In addition, the internal audit unit is responsible for the independent review of risk management and the control environment.

For a detailed discussion on the financial risks relating to the Bank please see Note 32 to the Bank's consolidated financial statements for the year ended 31 December 2021.

Strategic risk
The sustainable development of the Bank is directly dependent on the success and implementation of the set objectives within the set deadlines. The strategic choice based on an adequate assessment of the accompanying risks and economic conditions ensures its good management, and the regular review and assessment of the implementation create preconditions for a corresponding addition or change of the objectives. A positive effect is also provided by the Bank's policy to have sufficient capital to cover the risks related to its normal functioning, as well as any unforeseen risks.

Credit risk
Credit risk is the current or potential risk for the income and equity, occurring due to the incapability of the debtor to implement the requirements under contracts signed with the Bank or its incapability to act in accordance with the contractual terms and conditions. Credit risk for the Bank occurs with respect to the operations related to the granting of loans, deposits in other banks, as well as any investments in securities. Credit risk is determining for the Bank's financial profile and the Management therefore carefully manages and monitors the exposure of the Bank to credit risk. The Bank's lending policy and lending manual are developed by the organizational units responsible for lending and risk management and the Legal Department and are approved by the Management Board.
The system of internal rules, procedures and standardized loan products reflects the organizational structure and the strategy of Bank, regulates the credit analysis and approval process, defines the loan approval authorities, sets rules on the loan documentation required by the Bank and outlines processes for loan disbursement and ongoing monitoring, type and value of accepted collateral, required insurance and other risk reduction techniques.

The Bank carries out regular stress-tests for the evaluation of credit risk exposures, evaluation of the effect on the equity position of the Bank, identification of critical exposures and determining measures for credit risk mitigation and preservation of the capital position. As further disclosed below, there is loan portfolio concentration of risk in both a limited number of customers and in a limited number of industry sectors adversely affected in case by the global economic crisis.

Liquidity risk

The liquidity risk refers to the risk that the Group might not have sufficient cash to meet deposit withdrawals or other financial obligations that arises from mismatches in cash flows.

The main objectives when managing the liquidity of the Bank is to ensure the ongoing capability of the Bank to meet its financial liabilities, ensure resources, corresponding to the demand of loans and achieve positive financial results from the management of its own funds and the respective borrowings. The Bank's strategy and objectives in this respect are closely related to the establishment of a stable funding structure and adequate implementation of the liquidity standards.

The liquidity management principles of the Bank are as follows:

- Centralized control of the Bank's liquidity exercised by the liquidity management unit;
- Ongoing monitoring and evaluation of the necessary finds by time periods in the future, evaluation of the liquid asset adequacy of the Bank;
- Diversification of the sources of financing;
- Adequate planning of the emergency actions

The Bank has adopted internal rules for determining and monitoring the liquidity buffers in order to maintain additional liquidity, immediately accessible in case of a liquidity shock for a certain brief period of time. The rules determine the composition of the liquidity buffer, the characteristics and regularity of the applied stress scenarios and sources of financing in the going concern scenario and the liquidity crisis scenarios.

The liquidity position management framework is supplemented by internal limits for ensuring adequate coverage of the borrowings by liquidity assets, regular performance of stress tests for the evaluation of the quality and the stability of the liquidity buffer as well as indicators corresponding to the requirements of the regulatory framework – leverage, stable financing ratio, liquidity coverage ratio.

When managing its liquid position, the Bank uses interbank deposits mostly to bridge temporary funding mismatches, rather than to fund loans.

Targeting optimization of its liquidity sources and higher yield earned, the Bank invests in Bulgarian government securities. Investments in Bulgarian corporate bonds and shares are approved by the Asset and Liability Committee on a case-by-case basis. Securities acquired by the Bank for liquidity purposes are currently classified as "investments held for the collection of cash flows and sales" or "investments held for the collection of cash flows". The Bank seeks to hold no more than 50% of its liquid assets in the form of debt securities.

Aimed at supplementing and expanding the liquidity risk management framework, since 2014 additional internal limits have been introduced to mitigate the concentration risk and reinforce the liquidity buffers.

Interest rate risk

The interest rate risk relates to the potentially adverse for the Bank impact of interest rate fluctuations on BACB's net income and equity. The BACB's policy is to reduce the interest rate risk by extending floating rate loans combined with fixed interest rate floor in order to limit the potentially negative impact as a result of non-parallel movements or movements with different timing in interest rates in view of assets and liabilities.

Additionally, the Bank charges pre-payment penalties as a percentage of the principal balance outstanding, in order to limit the interest rate risk, reducing the possible early repayment of business loans (granted to small and medium-sized enterprises, corporate customers and municipalities). This, however, does not apply to the granted consumer and mortgage loans to natural persons, where the Bank applies the provisions of the Consumer Loans Act and the Consumer Loans Related to Immovable Property Act and no pre-payment penalties are charged.

The Bank does not trade in derivatives on interest rate. This policy means that the risk that the Bank may suffer significant losses in case of major fluctuations of the market interest levels is relatively mitigated.

The Bank's interest rate position is monitored and managed on an ongoing basis by Markets and Liquidity Department and Risk Management Division and is reported to the Asset and Liability Committee on a monthly basis. The Asset and Liability Committee takes an integrated view of the interest rate risk across all of the Bank's banking operations and activities. Risk Management Division carries out independent control on the open interest rate position, monitors the risk indicators for interest rate mismatch and prepares quarterly reports to the Management.

To refine measurement and apply advanced approaches, the Bank applies the methodology defined in the Guidelines on interest rate risk management arising from non-trading portfolio activities issued by EBA and the

Principles on interest rate risk management and supervision published by the Basel Committee on Banking Supervision, according to which the potential adverse impact of changes in interest rates on the net interest income and capital of the Bank is measured. The risk of negative change in net interest income and financial performance is measured by analysing selected interest rate scenarios for a one-year horizon. The effect on the economic value of capital is based on the Basel Committee's standardized methodology and interest rate scenarios according to the EBA Guidelines on interest rate risk management arising from non-trading portfolio activities, reflecting the absolute sensitivity values at all maturities when the yield curve changes. BACB has set an internal limit of 15% for the maximum effect of the applied standardized scenarios for interest rate shock on capital.

As at 31 December 2021, the maximum effect is reported in a parallel shock of interest rate increase (+200 b.p. for EUR and USD and 250 b.p. for BGN) amounting to 5.8% of the capital base (2020: 4.5%).

Currency risk
The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Bank operates in EUR, USD and BGN and occasionally in GBP and Swiss Francs. It has relatively limited foreign exchange exposure because since 1997, the Lev has been pegged to the Deutsche mark and, subsequently to the Euro through a currency-board system. The compliance with the foreign exchange limits is monitored on an on-going basis by Markets and Liquidity Department and is reported to the Asset and Liability Committee on a monthly basis.

The exchange rate risk management policy aims to maintain an open US dollar position that is as close as practicable to neutral by attempting to match the amounts and time limits of its liabilities denominated in USD with its receivables denominated in that currency. The Bank maintains a limit on the positions opened in USD of up to 10% of its capital base and this limit was not exceeded during the reporting periods ending on 31 December 2021 and 2020. The Bank maintains a long EUR/BGN position, i.e. its assets denominated in EUR are larger than its liabilities in EUR. The Bank does not trade on the foreign exchange market for its own account. The Bank offers foreign exchange services to its customers. The limit for overnight maximum open foreign exchange positions in customer transactions is EUR 100,000. Due to the currency board arrangement there is no limit for the position in EUR. In special circumstances, the above limits for open positions may be exceeded with the approval of the Executive Directors.
In the course of its operations, the Bank may conclude short-term foreign exchange swaps to manage its currency flows and as an instrument to reduce the cost of borrowed funds in some of the currencies concerned, taking advantage of their existing differences in interest rates.
At 31 December 2021 there are no active contracts for foreign currency swaps.

Counterparty risk
BACB has established interbank limits with banks operating in Bulgaria, as well as with its main foreign correspondent banks. Counterparty limits are approved by the Asset and Liability Committee.
Counterparty limits are approved based on a review of the capital adequacy, liquidity and shareholding structure of the counterparty bank. The list of the approved counterparties and limits is reviewed and updated at least once a year.

Investment Risk
The investments are approved by the ALCO after a review of the credit risk of the issuer. The total amount of the securities portfolio at 31 December 2021 is EUR 70,3 million (2020: EUR 43,9 million), divided in two sections - Financial assets, appraised by fair value in other comprehensive income in the amount if EUR 33,3 million and and Financial assets, accounted by amortization value - in the amount of 37 million. As of the same date, EUR 7,3 million of the securities in the Bank's portfolio are corporate bonds and equity securities, incl. BGN 5,2 million corporate debt securities and BGN 2,1 million - equity securities.
Operational risk
Operational risk management is an important component of sound and stable risk management in modern financial institutions. Operational risk is the risk of incurring losses as a result of inadequate or inappropriate processes, people or systems or external events. In this context, the most important operational risks are those related to breaches in the internal control and corporate governance. Such breaches may result in financial losses due to errors, abuses or untimely actions or omissions to act or may otherwise endanger the interests of the Bank. The БАКБ has adopted internal rules for the management of the operating risk, which regulate the process of

management and control of that risk. The organizational operating risk management model is based on the principle of separation of the responsibilities between the management and risk control and includes three main pillars:

- identification and management of the risks by the individual business lines;
- independent review, evaluation and reporting the risk by the operating risk management function;
- independent verification of the controls, processes and systems, utilized for the management of the operating risk by internal and/or external auditors.

The operational risk management and reduction is carried out through mechanisms of internal control, risk transfer, risk taking and monitoring or risk avoidance by withdrawing an activity or process. The main internal control mechanisms include defining and delegating clearly defined powers and responsibilities to officials and ensuring an ethical organizational culture, adopting rules and procedures for approving, implementing and reporting on operations, including exceptions, analysing the factors contributing to the manifestation of operational risk and taking measures to limit it, etc.

The Bank has adopted a Disaster and Accident Action Plan, which ensures business continuity.

Custodian activities

In its capacity as an investment intermediary the Bank is safeguarding assets on behalf of its clients. As disclosed in Note 3 (Summary of Significant Accounting Policies) to the Bank's separate financial statements, no such assets are presented in the statement of financial position as they are not an asset of the Bank. It is disclosed in Note 32.5. to the separate financial statements that the Bank carries out its custodian activities in accordance with the requirements of Ordinance No 38 of the FSC.

Hedging

For a short summary of hedging instruments and the types of risks being hedged, please refer to the Notes to Bank's Consolidated Financial Statements for 2021.

Recovery plan / Directive 59/15.05.2014

In compliance with the requirements of Directive 2014/59 of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions, Art. 6 of the Recovery and Resolution of Credit Institutions and Investment Firms Act, Art. 73g of the Credit Institutions Act and Art. 25 of Ordinance No. 7 of BNB on the risk organization and management in banks, all banks prepare a recovery plan, consisting of actions and measures, which are to be taken in order to recover their financial position, in case of financial difficulties.

The recovery plan, adopted by the Bank consists of four main parts, which detail the plan development process, the rules for its activation, the recovery options in various scenarios and the rules for internal and external communication in case of plan activation.

The recovery plan contains an analysis of the effect of adverse events, which may strongly affect the Bank's financial position, including crises, having effect on the entire financial market and on the Bank in particular. The plan development and activation processes are described, as well as the applied limits and indicators related to the preventive evaluation of the vulnerability of the liquidity and equity positions of the Bank, the yield, risk profile and any necessary actions. The plan also details and analyses the structure and key activities of the Bank, as well as the main moments in its strategy. A main part of the plan is dedicated to the recovery options –the selected recovery measures, assessment of the quantitative/qualitative effect, implementation period and fulfilment likeliness, as well as an evaluation of the results of the stress scenarios applied. A communication plan is also developed with the internal structures of the Bank and external organizations, as well as stages, order and scope of the actions, related to the recovery plan activation.

II. INFORMATION UNDER ART. 247 OF THE COMMERCE ACT

- **Involvement of the members of the Bank's Supervisory Board and Management Board in other companies**

None of the members of the management and control bodies of the Bank is involved in commercial companies as a general partner.
The members of the Supervisory Board and the Management Board of the Bank hold shares in the amount of more than 25% of the capital or are members of the management and control bodies of companies as of 31 December 2021, as follows:

Members of the Supervisory Board:

1. Tsvetelina Borislavova Karagyozova– data on shareholdings and/or involvement in management and control bodies in other companies outside the Group:

Company name	**Direct shareholding of more than 25% of the capital or indirect exercise of control**	**Participation in management and control bodies**
CSIF AD	**Direct** capital participation – 99.997% of the capital is owned by Tsvetelina Borislavova Karagyozova and **indirect** capital participation through Credo Bonum Foundation which has 0.003% direct capital participation;	Member of the Board of Directors and Chief Executive Officer
ITP Bulgaria EOOD	**Direct** capital participation – 57.5% of the capital is owned by Tsvetelina Borislavova Karagyozova and **indirect** capital participation through the controlled company CSIF AD which has 43.5% direct capital participation;	-
Credo Bonum Foundation	-	Chairperson
Tipping Point Foundation	-	Executive Director
Global Bulgaria Initiative Association	-	Chairperson
Bulgarian Council for Sustainable Development Association	-	Member of the Management Board
Digitalization and Introduction of New Technologies Foundation	-	Chairperson of the Management Board
National Board of Tourism Association	-	Member of the Management Board
Bulgarian Ski School Association	-	Chairperson
IDS Fund AD	**Indirect** capital participation through the controlled company CSIF AD, which has a 50% direct capital participation and through the controlled company BACB Finance, which has a 50% direct capital participation.	
ORK Consult LTD	**Indirect** capital participation through the controlled company IDS Fund AD,	

	which has 75% direct capital participation;	
Vital Concept OOD	**Indirect** capital participation through the controlled company CSIF AD, which has a 36% direct capital participation and through the controlled company IDS Fund AD, which has a 44% direct capital participation.	
CSIF Hydro EAD	**Indirect** capital participation through the controlled company CSIF AD, which has 100% direct capital participation	-
VEC Stankova Reka EOOD	**Indirect** capital participation through the controlled company CSIF Hydro EAD, which has 100.00% direct capital participation	
ERT Hydro Ltd.	**Indirect** capital participation through the controlled company CSIF Hydro EAD, which has 100.00% direct capital participation	
Disib OOD	**Indirect** capital participation through the controlled company CSIF AD, which has 87.43% direct capital participation	
Windex OOD	**Indirect** capital participation through the controlled company CSIF AD, which has a 99.04% direct capital participation and through the controlled company CSIF AD, which has a 0.96% direct capital participation;	
Pamporovo Gas EAD	**Indirect** capital participation through the controlled company CSIF Energy EAD, which has 100% direct capital participation	
CSIF Energy EAD	**Indirect** capital participation through the controlled company CSIF AD, which has 100% direct capital participation.	
Providenti AD	**Indirect** capital participation through the controlled company Disib AD, which has 35.70% direct capital participation	
Libera Estate OOD	**Direct** capital participation – 50.33% of the capital is owned by Tsvetelina Borislavova Karagyozova and **indirect** capital participation through the controlled company CSIF AD which has 49.77% direct capital participation	
Sunny Apple EOOD	**Indirect** capital participation through the controlled company CSIF AD, which has 100% direct capital participation	
Sunny Fruits Bulgaria LTD.	**Indirect** capital participation through the controlled company ITP Bulgaria EOOD, which has 10% direct capital participation, through the controlled Sunny Apple EOOD, which has 10% direct shareholding and through the controlled company Libera Estate OOD, which has 20% direct capital participation	

Rival 5 EOOD	**Indirect** capital participation through the controlled company CSIF AD, which has 100% direct capital participation	-
Pamporovo AD	**Indirect** capital participation through the controlled company CSIF AD, which has a 88.39% direct capital participation and through the controlled company Despred AD, which has a 11.44% direct capital participation	-
Monek - Yug AD	**Indirect** capital participation through the controlled company CSIF AD, which has 79.50% direct capital participation	-
Port Bulgaria West EAD	**Direct** capital participation - 58.11% of the capital is owned by Tsvetelina Borislavova Karagyozova and **indirect** capital participation through the controlled compoany CSIF AD, which has 25.12% direct capital participation, through the controlled company Despred AD, which has 13.75% capital participation and through Buljak EAD, which has 3.02% capital participation;	
PB Management EOOD	**Indirect** capital participation through the controlled company Port Bulgaria West EAD, which has 100% direct capital participation	
Morska Mechta EOOD	**Indirect** capital participation through the controlled company Port Bulgaria West EAD, which has 100% direct capital participation	
Buljack EAD	**Indirect** capital participation through the controlled company CSIF AD, which has 100% direct capital participation	
Sea Food EOOD	**Indirect** capital participation through the controlled company CSIF AD, which has 100% direct capital participation	
PB Shipping EOOD	**Direct** capital participation – 5.25% of the capital is owned by Tsvetelina Borislavova Karagyozova and **indirect** capital participation through the controlled company CSIF AD, which has 0.21% direct capital participation and through the controlled company Port Bulgaria West EAD, which has 94.54% direct capital participation	
Despred AD	**Indirect** capital participation through the controlled company CSIF AD, which has 93.78% direct capital participation	

2. Petar Georgiev Atanasov – no shareholdings and/or involvement in management and control bodies in other companies outside the Bank.

3. Martin Boychev Ganev – data on shareholdings and/or involvement in management and control bodies in other companies outside the Bank:

Company name	**Direct shareholding of more than 25% of the capital or indirect exercise of control**	**Participation in management and control bodies**
1. Management of Projects, Energy, Ecology, Finances AD	**Direct** shareholding – 90.00% of the capital is owned by Martin Boychev Ganev	
2. Pasat Bulgaria AD	**Direct** shareholding – 26.158% of the capital is owned by Martin Boychev Ganev	
*3. Papia 1 EOOD **	**Direct** shareholding – 100.00% of the capital is owned by Martin Boychev Ganev	Manager
*4. Green Hills Ltd. **	**Direct** shareholding – 100.00% of the capital is owned by Martin Boychev Ganev	Manager
*5. Zelena Strandja EOOD **	**Direct** shareholding – 100.00% of the capital is owned by Martin Boychev Ganev	Manager
6. *Easy Services OOD **	**Direct** shareholding – 25.00% of the capital is owned by Martin Boychev Ganev	Manager
7. DK - Domostroene AD	-	Member of the Board of Directors
8. Ansa Borima OOD	**Direct** shareholding – 50% of the capital is owned by Martin Boychev Ganev	
9. Bulgarian Economic Forum, a non-profit organization	-	Member of the Management Board

* The companies under para. 3-7 form a joint group of companies within the meaning of §1(13) (c) of the Supplementary Provisions of the Additional Supervision of Financial Conglomerates Act and are accordingly considered as a single participation.

Member of the Management Board:

1. Mr. Ilian Petrov Georgiev (Chief Executive Officer) – data on shareholdings and/or involvement in management and control bodies in other companies outside the Bank:

Company name	**Direct shareholding of more than 25% of the capital or indirect exercise of control**	**Participation in management and control bodies**
BACB Trade EAD	-	Chairperson of the Board of Directors
BACB Finance EAD		Member of the Board of Directors
IDS Fund AD		Member of the Board of Directors
Paynetics AD		Member of the Board of Directors
Nivel Group OOD	**Direct** capital participation in the amount of 50% of the capital shares	
Stana Vinyard OOD	**Direct** capital participation in the amount of 98.00% of the capital;	

2. Mr. Aleksandar Dimitrov (Executive Director) – data on shareholdings and/or involvement in management and control bodies in other companies outside the Bank:

Company name	**Direct shareholding of more than 25% of the capital or indirect exercise of control**	**Participation in management and control bodies**
LAX Investments EOOD	**Direct** shareholding – 100% of the capital is owned by Aleksandar Dimitrov	
Phyre JSC		Member of the Board of Directors

3. Ms. Loreta Ivanova Grigorova (Executive Director) – data on shareholdings and/or involvement in management and control bodies in other companies outside the Bank:

Company name	**Direct shareholding of more than 25% of the capital or indirect exercise of control**	**Participation in management and control bodies**
Tresanton LTD.	**Direct** shareholding – 66% of the capital is owned by Loreta Ivanova Grigorova	

4. Ms. Silvia Kirilova (member of the Management Board) – data on shareholdings and/or involvement in management and control bodies in other companies outside the Bank:

Company name	**Direct shareholding of more than 25% of the capital or indirect exercise of control**	**Participation in management and control bodies**
Kirilov & Kirilova Law Firm		Managing Partner

- **Conflict of interest (Art. 240b of the Commerce Act)**

In compliance with Art. 116B(1)(2) POSA and in accordance with the Bank's Articles of Association, the members of the Management Board and the Supervisory Board should avoid direct and indirect conflicts between their interest and the Bank's interest, and in case such conflicts occur – they should promptly and fully disclose them in writing to the relevant body and not participate, as well as not influence other members of boards in making decisions in these cases.

None of the members of the Supervisory Board or the Management Board of the Bank has a potential conflict of interest between their obligations to the Bank, on the one hand, and their personal interests, on the other.

None of the members of the Supervisory Board and the Management Board of the Bank or any person related to them has entered into transactions with the Bank outside its normal operations. All transactions between the Bank and members of the Supervisory Board and the Management Board, if any, are concluded on market terms and after receiving approval in compliance with the Bank's Articles of Association and its operating rules, taking into account and applying the requirements of the internal rules for detecting and avoiding conflicts of interest and ensuring trust.

- **Shares acquired, held and transferred shares by members of the Supervisory Board and the Management Board**

During the reporting period, Ms. Tsvetelina Borislavova Karagyozova, Chairperson of the Supervisory Board, acquired 2,465,000 shares directly through a transfer transaction, constituting 9.98% of the capital of BACB AD.

Apart from the above, in 2021 no other member of the Supervisory Board and the Management Board acquired or transferred shares of the Bank's capital.

- **Rights of the members of the Supervisory Board and the Management Board to acquire shares and bonds of the Bank**

The members of the Management Board and the Supervisory Board of the Bank have no special rights and privileges when purchasing securities issued by the Bank. The Bank does not have a bonus plan for distributing options on its own shares.

III. IMPORTANT DEVELOPMENTS AFTER THE DATE OF THE LAST ANNUAL BALANCE SHEET

The war conflict started on 24 February 2022 between Russia and Ukraine, which is unfolding as at the date of these financial statements, has caused disruptions on the leading global financial markets; and the problems with supply chains that were initially caused by the COVID-19 pandemic, are expected to deteriorate even more as a result of this conflict on the territory of Ukraine. Economic sanctions have been imposed on the Russian Federation by the EU, USA and other countries. Prices of petrol, gas and other resources are expected to soar, and global inflation is expected to rise. Currently, it is difficult to anticipate the outcome of the conflict, and its long-term impact on the global economic and social developments.

According to management, the main risk for the Bank is not to be able to recover in full the value of assets held in the affected countries (inl. cash at banks operating on the territory of Ukrain or Russia; loans granted to Russian or Ukranian customers; government bonds issued by the Russian Federation). Management's assessment is that this is a non-adjusting event occurred after the end of the reporting period and accordingly, these separate financial statements do not contain adjustments to the value of assets, if such adjustments should be necessary, to reflect the significant increase in credit risk for the Bank. Considering the dynamics of the circumstances, currently management is unable to make a reliable estimate or measurement of the possible effects of the conflict on the operations, assets and economic development of the Bank. Management has undertaken measures for limiting the possible consequences on the Bank's operations.

As of 31 December 2021, the carrying amount of exposures to Russian counterparties is BGN 1 080 thousand.

The total amount of exposures to Ukranian customers is BGN 169 thousand.

No other significant events after the end of the reporting period have been identified.

IV. PROBABLE FUTURE DEVELOPMENT AND PLANS FOR 2022

The preparation of the BACB AD 2022 Development Plan is based on the approved development strategy of the Bank for the period 2021-2023 and to the maximum extent is consistent with the conditions imposed by the COVID-19 pandemic in the country and globally since early 2020 and the shocks caused in the global and EU economies and in particular – in banking. The main risks to the implementation of the plan stem from the spread of COVID-19 in Bulgaria and around the world and the related restrictive measures, the low level of vaccination, the rising prices of major energy sources and the political changes in the country.

In general, the EU economy is recovering faster than expected – as specified by the European Commission (EC) in the interim summer forecast published in July 2021. The process of easing coronavirus constraints helps speed up recovery, and the gradual opening of economies has an additional stabilizing effect. This gives reason for optimism and the EC forecasts growth of the economy of the European Union (EU) and the Eurozone of4.8% for 2021 and 4.5% for 2022 or an increase compared to previous estimates by 0.6 points for the EU economy and 0.5 points for the Eurozone in 2021 and 0.1% for 2022.

The European Commission revised upwards its forecasts for economic growth in Bulgaria to 4.6% in 2021 (compared to 3.5% in the forecast of May) and a decline to 4.1% in 2022 (compared to 4.7% in the forecast of May).
The spring forecast of the Ministry of Finance is based on the assumption that the strictest measures against the spread of COVID-19 will be effected in Q1 2021, both in the EU and in Bulgaria, after which the acceleration of the vaccination process will help phase out constraints and achieve a smooth return to the normal functioning of economies. Based on this assumption, growth of 5.5% of the global, 3.9% of the EU and 2.7% of the Bulgarian economy in 2021, respectively 4.2%, 3.9% and 3.6% for 2022 is projected. The possible risks and positive factors for the implementation of the forecast are taken into account.

From today's point of view, optimism seems somewhat hasty – US, China and the Eurozone are already growing slower than investors had hoped. Consumer prices are rising too fast, inflation rate is accelerating. What analysts point out is that the Delta variant affects the economy in a different way – it suppresses less growth, but increases inflation rate. Coronavirus has shown that global supply chains can easily be curtailed having the strongest impact on small and open economies, such as Bulgaria.

The development of the budget is based on the following internal documents, proposals, forecasts and assumptions:

- Guidelines of the Management Board, reflecting the set medium-term strategic goals, new challenges and trends in the development of the banking sector;
- Expectation for growth of main balance sheet and result positions - loans, borrowed funds, revenues and expenses, developed jointly by the leading structural units in order to implement the set tasks, achieve optimal results, reach certain shares and ratios;
- The need for digitalization of processes, products and services;
- The reduction of the volume of non-performing loans and the realization of acquired assets through targeted measures for specific exposures, formulated and described in a separate Strategy for Reducing Non-Performing Loans and Management of Acquired Collateral;
- Legislative and regulatory changes concerning banking;

V. RESEARCH AND DEVELOPMENT

BACB is a credit institution and as such it does not have a specialized unit for research and development.
The Bank provides financing tailored to the specific needs of each customer. As early as 2012, the Bank began offering standardized loan products to its customers under its lending programs for natural persons and small and medium-sized enterprises (SMEs). BACB gives priority to the financing of projects with approved financial assistance under the EU operational programs. The Bank operates a specialized division aimed at working with European programs and financial institutions in order to provide a full range of services to the BACB's customers at all stages of the project implementation process under European programs.

VI. TREASURY SHARES AND SHARE REPURCHASE (Art. 187e of the Commerce Act)

The Bank does not hold any treasury shares and has not bought or sold its treasury shares for its own account.

As of 31 December 2021, the Bank has two 100% subsidiaries - BACB Finance EAD and BACB Trade EAD. As of the same date, the Bank has indirect shareholding in the amount of 50% of the capital of IDS Fund AD. The financial results of these companies are included in the consolidated financial statements of the Group as of 31 December 2021. BACB Finance EAD, BACB Trade EAD and IDS Fund AD do not hold treasury shares, have not bought or sold their treasury shares for their own account. None of the companies included in the consolidation holds any Bank's shares.
At the end of 2021, the procedure for voluntary liquidation of 100% of the subsidiary Paytech EOOD was completed.

VII. BRANCHES

The Bank has no registered branches within the meaning of the Commerce Act.

Apart from its head office in Sofia at 2 Slavyanska Str. (registered address of BACB), in 2021 the Bank operated through its operational offices in Sofia (5), Burgas (2), Plovdiv (2), Varna 2), Kozloduy (1), Kardzhali (1), Pamporovo (1), Chepelare (1), Pleven (1), Ruse (1), Stara Zagora (1), Veliko Tarnovo (1) and Petrich (1), offering a full range of banking services. The purpose of the offices is to provide additional support for the growth of the customer base and good service of the existing one. Information on the location of the offices can be found on the Bank's website.

VIII. FINANCIAL INSTRUMENTS ISSUED BY THE BANK

In 2021 the Bank or the companies in the Group have not issued any new corporate or mortgage bond issues.
As at 31 December 2021 the Bank or the companies in the Group have no obligations under bond issues.

IX. CORPORATE GOVERNANCE STATEMENT

1. Information on compliance, as appropriate, with the Corporate Governance Code, approved by the FSC Deputy Chairperson under Art. 100N(8) POSA

Pursuant to the requirements of Art. 100N(8) POSA, Bulgarian-American Credit Bank AD declares that in 2021 it complied, as appropriate, with the National Corporate Governance Code (the **Code**), approved by decision No. 461-KKU of 30 June 2016 of the FSC member acting as the FSC Deputy Chairperson, head of the Investment Supervision Department for the Corporate Governance Code under Art. 100N(8)(1)(a) POSA, the latest amendment of which dating July 2021.

The text of the National Corporate Governance Code is published on the website of the Financial Supervision Commission at www.fsc.bg

2. Information on corporate governance practices applied by the Bank in addition to the National Corporate Governance Code

The Bank considers that the provisions of the National Corporate Governance Code sufficiently cover the requirements for good corporate governance of companies. In this regard, the Bank does not apply additional corporate governance practices other than those established by the National Corporate Governance Code.

3. Explanations of which parts of the Corporate Governance Code, approved by the FSC Deputy Chairperson under Art. 100N(8) POSA, are not complied with by the Bank and the respective grounds

Explanations on certain corporate practices applied in the Bank:

(1) <u>Art. 7.4., last sentence of the **Code** "The Management Board shall adopt and comply with the Code of Ethics".</u>

With a decision of April 2012 and a decision of 17 May 2018, the Management Board approved Code of Conduct (Code of Ethics) for the Bank's employees, which defines the basic principles, ethical norms and corporate values underlying the policies and business plans, rules and procedures in the daily operations of the Bank and on the basis of which the employees perform their duties. The adopted Code of Ethics applies to all employees, as well as to the Bank's Management. In this aspect, the Management Board has not adopted a code of ethics applicable solely and only to the members of the Board of Directors, different from the one applicable to the entire Bank.

(2) <u>Art. 9.2 of the **Code**: "It is recommended that the remuneration of the members of the Management Board consist of basic remuneration and incentives":</u>

The remuneration paid in 2021 to the executive members of the Management Board (executive directors) of the Bank is formed from the basic remuneration only and no additional incentives have been paid.
The members of the Management Board of the Bank who are not in charge of the operational management and the representation of the Bank before third parties ("non-executive" members of the Management Board) do not receive remuneration under management contracts for their activity.

(3) <u>Art. 13.3, second sentence of the **Code**: "It is recommended that the number of consecutive terms of office of the independent members (of the Supervisory Board) be limited"</u>

Considering the recommended nature of the provision and the lack of such a requirement in the applicable legislation, the Bank has not introduced such a restriction. BACB AD considers that the requirements for independence pursuant to Art. 116a POSA sufficiently guarantee the interests of the company and the shareholders (including the minority shareholders).

(4) <u>Art. 13.6, second sentence of the **Code**: "It is recommended that the articles of association of the company determine the number of companies in which the members of the Supervisory Board may hold management positions"</u>

In view of the fact that the Bank is a "credit institution" within the meaning of the Credit Institutions Act, the requirements of Art. 10(5) of the Credit Institutions Act and the regulations on the application of the act shall apply. The normative framework regulates in detail the positions that a person - a member of the management and supervisory body of a bank, is entitled to hold. BACB AD considers that the normative regulations are sufficient. BACB complies with the set regulatory requirements.

(5) Art. 20 of the **Code**: "It is desirable to apply the rotation principle to the proposals and selection of external auditors"

In view of the specifics of BACB as a credit institution and the provision of Art. 76(4) CIA, BACB shall agree in advance with BNB on the selection of bank's auditors. In view of the applicable legislation, in 2021 a joint audit of BACB AD was performed by two audit companies.

(6) Art. 23.3.3 of the **Code**: "Corporate managements shall draw up rules for the organization and holding of regular and extraordinary General Meetings of Shareholders of the company, guaranteeing equal treatment of all shareholders and the right of each shareholder to express their opinion on the agenda of the General Meeting."

The Bank complies with the statutory rules under the Commerce Act and the Public Offering of Securities Act on the organization and holding of general meetings of shareholders, and these rules sufficiently guarantee equal treatment and rights of shareholders on general meetings of shareholders. In 2021 the Bank also adopted Rules for corporate events, identification of shareholders and holding general meetings of shareholders.

(7) Art. 32 of the **Code:** "Corporate managements shall approve and monitor the compliance with the internal rules for the preparation of annual and interim financial statements and the procedure for disclosing information"

The Bank complies with the requirements of the applicable legislation in accordance with the Public Offering of Securities Act and the subordinate legislation on its application, which sufficiently regulate the requirements for the preparation of annual and interim financial statements. With regard to the disclosure of information, the relevant provisions of the Internal rules of BACB for the application of measures against market abuse of financial instruments apply.

3. Description of the main characteristics of the internal control and risk management systems in relation to the process of financial reporting

Organizational and operational independence of the risk control function from the business lines monitored and controlled by the Bank

The risk control function at BACB is performed by the Risk Management Division, which is directly subordinated to the Executive Director responsible for Risk Management. In the organizational structure of the Bank, the division is directly subordinated to the line executive director of the Bank. According to the rules of activity and organizational structure of the Bank, the Risk Management Division is independent of the business line responsible for lending, customer operations and investments, which are directly subordinated to another executive director.

In order to ensure consistency between the Bank's strategic objectives set by the Management and the activities of the divisions, including the Risk Management Division, the Management has developed a matrix of risk indicators monitored by the Audit Committee on a quarterly basis.

System of control processes for risk identifying, measuring, monitoring and managing

The system of control processes for risk identification, measurement, monitoring and management at the Bank is based on the internal rules and procedures, the functional characteristics of the individual units and the job descriptions of the employees.

The procedure for setting limits at the Bank is strictly regulated and, depending on the level in the organizational structure, is approved and discussed by the higher levels.
In 2021, no violations were found regarding the compliance with the procedure for determining powers and limits.

Credit risk

The lending process at the Bank is based on the principle of distribution of the functions and competences for the analyzing, decision-making and approval of the loans, the management and control of the loan transactions. The independence of the units engaged in control functions from the business lines they control is ensured.

The activities for credit risk identification, monitoring, management and limitation of its negative effect are regulated in the adopted internal regulations - Risk Management Policy, Lending Policy, Instructions for Lending to

SMEs and Corporate Customers, Instructions for Providing Consumer and Mortgage Loans to Natural Persons, Rules for Control, Management and Collection of Problem Exposures, Internal Rules for Conducting Operations on Financial Markets - Limits on Counterparty Banks, Operational Guides. The rules are obligatory for the Bank's structural units directly involved in lending. They address in detail the transactions involving credit risk, the powers of those structural units and employees engaged in lending, the authorization powers, the procedures and activities for preliminary, ongoing and ex-post controls, the type and quantity of collateral accepted, the necessary insurance and other risk mitigation methods.
The process of approving credit transactions, respectively the levels for decision-making are clearly defined in the effective rules and are approved by the Management Board of BACB AD. The composition of the committees deciding on lending transactions is determined by the Management Board and each of them includes persons representing the Bank.

Credit risk monitoring is performed at the level of the relevant transaction, as well as on a portfolio basis.
Periodic reporting on credit risk, including information on the status of the loan portfolio, the compliance with internal and regulatory limits, the level of concentration risk, etc., is presented both to the Bank's Management and to the regular meetings of the Independent Audit Committee, the Risk Committee and the Supervisory Board.
The limits related to the Bank's lending activities are in line with the requirements of the Credit Institutions Act, the external regulations - directives, regulations, BNB ordinances and good banking practices. Any exceedances of the limits are reported in writing to the Bank’s senior management.
The limits for exposures by counterparties are determined by the Asset and Liability Committee within the rights delegated to the Committee by the Management Board. The Markets and Liquidity Department also reviews new proposals for limits by counterparties, coordinates them with the Risk Management Division and submits them to the Asset and Liability Committee for approval at least once a year. The Markets and Liquidity Department may propose for approval by the Asset and Liability Committee the change, elimination or addition of counterparties, if necessary and in the event of a change in the market situation or the position of a certain counterparty.
The Bank has established an internal policy and procedures for monitoring and classification of its risk exposures and determining the impairment loss. These documents are used to determine the terms and conditions and the rules for identification of increased credit risk and the formation of impairment losses. The specialized internal body for monitoring, assessment and classification of the risk exposures assesses the available information and determines the amount of the expected credit losses on a monthly basis. .

Market risk
The Bank's market risk management aims at the systematic identification, assessment, analysis, limitation, monitoring and reporting of market risk. The functions and responsibilities of the units responsible for the identification of the Market Risk Management Framework are defined in the Internal Rules for Identifying, Measuring and Managing Market Risks in the Operations of BACB AD, the Risk Management Policy, the Rules for Conducting Operations on Financial Market, Rules for Managing Securities in the Banking and Trading Portfolio, the Procedures for Approving the Transactions by the Payments Division.
The main principles underlying market risk management are: defining and approving a market risk strategy by the Management Board of BACB as part of the overall risk management strategy; dividing the responsibilities between those who take and manage the risk on an ongoing basis and those who control it. The ongoing risk management and the execution of transactions on the financial markets at BACB is performed by the Markets and Liquidity Department, in pursue of the Bank's strategy and according to the decisions of the Assets and Liabilities Committee (ALCO) and the Management Board. The control of market risks and the methodological management of the processes is performed by the Risk Management Division.
The Bank has set a system of limits aimed at mitigating market risks in the day-to-day operations. The limits are grouped by the respective market risk category. Limits / levels of competence are also determined by types of activities of the employees of the Markets and Liquidity Department.

Currency risk
The internal rules for conducting operations on the financial markets determine the list of widely traded currencies with which the Bank executes transactions, limits for executing transactions on the local and international interbank foreign exchange market and limits for open currency positions. The compliance with the currency trading restriction is monitored at systematic level. The change in the limits is made after the respective approval by ALCO. The limits and/or daily ratios of an open currency position may only be exceeded by counterparty, instrument, etc., with the authorization of the Executive Director. In 2021, no violations of the set limit thresholds were reported.

Interest rate risk
The Bank's interest rate position is monitored and managed on an ongoing basis by the Markets and Liquidity Department which reports to the Asset and Liability Committee on a monthly basis. The Asset and Liability Committee takes an integrated view of the interest rate risk across all of the banking operations and activities. The Operational, Market and Other Types of Risk Department to the Risk Management Division carries out independent ongoing control on the open interest rate position, monitors the risk indicators for interest rate mismatch and prepares quarterly reports to the Management.
The BACB's policy is to reduce the interest rate risk by extending floating rate loans combined with fixed interest rate floor in order to limit the potentially negative impact as a result of non-parallel movements or movements with different timing in interest rates in view of assets and liabilities.

Price risk
The Bank strives for optimal price risk management, and the investments in securities are subject to approval by the Assets and Liabilities Committee after analysing the credit risk of the respective issuer and potential profits at the transaction level. The Bank does not maintain a trading portfolio. The portfolio is conservative in terms of counterparty risk - the investments are mainly in Bulgarian government securities.

Operational risk
The operational risk control system includes developed rules and methodologies that are applied in the management of the operational risk, as well as the existing systems that limit errors or misuses.

The operational risk management framework combines:
1. The Bank's strategy regarding risk management as well as the degree of risk tolerance, defined in the Risk Management Policy;
2. Organizational model based on the principle of division of responsibilities between the risk management and control and including three main pillars – identification and management of the risks by the individual business lines, independent review, evaluation and reporting the risk by the operating risk management function, independent verification of the controls, processes and systems, utilized for the management of the operating risk by internal and/or external auditors.
3. Reporting system which includes the preparation of reports and information on the nature and causes of significant operational events, as well as a comprehensive analysis and assessment of the dynamics of the registered events by categories and business lines and aims to provide timely and accurate information to support business unit managers, the Management and the Management Board to make appropriate decisions to increase the effectiveness of the operational risk management framework

As of 31 December 2021, the operational risk management is performed by the Risk Management Division assisted by the heads of the individual units in the Bank under the direct supervision of the Management Board.

The Bank has developed Contingency Plan and Ensuring the Continuity of the Bank's Activities, adopted by the Management Board on 30 August 2012, updated by a decision of the Management Board of May 2020, which aims to ensure business continuity. BACB has a UPS (for the Head Office and the offices) to maintain the operations in case of emergency shutdown of the power supply. In 2021, the techniques described in the Plan were not applied.

Compliance risk

It is related to legal and regulatory sanctions, significant financial losses or loss of reputation as a result of non-compliance with laws, regulations, internal rules and standards, the Code of Business Conduct applicable to banking (collectively referred to as compliance with laws, rules and standards).
The Bank has established a function for compliance with regulatory requirements - the Compliance and Control Department, which identifies and assesses the compliance risk at the Bank, monitors and controls all activities, measures taken to minimize the compliance risks, controls the reflection of changes in the regulations applicable to banking activities in the internal policies, rules and procedures of the compliance of the Bank's activities with them, reports the compliance risks to the Management Board and the Supervisory Board of the Bank, provides training and consulting on compliance issues within the Bank. The compliance with regulatory requirements is the responsibility of all employees and executives of the Bank, but is also a part of its corporate culture. The scope of the function, as a priority for compliance and control, includes all regulations, laws, ordinances, instructions related to banking. The entire internal banking system should be provided with a sufficient qualitative and quantitative set of policies, rules and procedures that are in line with the regulatory and legal requirements. The Compliance and Control Unit of the Bank regularly reports to the Management on any important changes in the regulatory

framework concerning the internal banking policies and rules. The identified compliance risks are also reported, as well as the outlined measures for their minimization and effective management. The Bank has developed a policy and rules for the introduction and organization of the compliance and control function, which are communicated to all BACB employees who should be familiar with them and strictly apply them.

Additional audit services

The audit companies auditing the annual financial statements of the Bank (individual and consolidated) also issue a Report on factual findings with regard to the reliability of the internal control systems pursuant to Article 76, paragraph 7, item 1 of the Credit Institutions Act and Ordinance 14, Article 5 on the content of the audit report for supervisory purposes as at December 31, 2021 (Ernst & Young Audit OOD and Afa OOD has issued such a report for the Bank as of December 31, 2020).

4. Information under Art. 10 (1), (c), (d), (f), (h), (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids

(1) Significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Art. 85 of Directive 2001/34/EC

As of 31 December 2021 the Bank's shareholder structure is as follows:

	31/12/2021	
Shareholder	**Number of shares held**	**% of the capital**
CSIF AD	11,277,473	45.67
LTBI Holdings LLC	8,822,068	35.73
Tsvetelina Borislavova Karagyozova	2,465,000	9.98
Other shareholders	2,126,772	8.61
Total	24,691,313	100.00

Significant direct shareholdings in the capital of the Bank are the shareholdings of CSIF AD, LTBI Holdings LLC.

Ms. Tsvetelina Borislavova Karagyozova is a shareholder directly holding 9.98% of the capital of BACB AD and at the same time is a person who holds over 50 percent of the votes in the General Meeting of Shareholders of the direct shareholder CSIF AD and respectively is able to designate more than half of the members of its Board of Directors. Based on the foregoing, Ms. Tsvetelina Borislavova Karagyozova has a significant shareholding (directly and indirectly) in the capital of the Bank.

(2) Holders of all securities with special control rights and a description of those rights

The Bank has not issued securities with special control rights.

(3) All restrictions on voting rights.

The Bank's Articles of Association do not provide for any limitations on the shareholders' voting rights.
Such limitations may arise under the law in two cases: (a) exceeding certain shareholding thresholds without the prior consent of BNB in compliance with the CIA; and (b) voting on certain transactions with related parties pursuant to Art. 114 POSA.

(4) Rules governing the appointment or replacement of members of the Supervisory Board and the Management Board and amendment of the Articles of Association

Bulgarian-American Credit Bank AD has a two-tier form of management consisting of Supervisory Board and Management Board. The members of the Supervisory Board can be both natural persons and legal entities, while the members of the Management Board can only be natural persons.

Supervisory Board
The Bulgarian legislation and the Bank's Articles of Association stipulate that the Supervisory Board must consist of at least three and not more than seven members, and currently the Supervisory Board of BACB AD consists of three members. The members of the Supervisory Board are appointed and dismissed by a decision of the General Meeting of Shareholders adopted by a majority of two-thirds of the shares presented at the meeting. Pursuant to the Public Offering of Securities Act, at least one third of the members of the Supervisory Board must be independent persons (i.e. not shareholders holding 25% or more of the Bank's capital, not Bank's employees or persons in permanent trade relations with the Bank, not persons related to the above persons, to other members of any Board of the Bank, as well as to the Bank itself).
The Supervisory Board appoints and dismisses the members of the Management Board and approves the election and authorization of the executive directors (two or more executive members of the Management Board), as well as the withdrawal of this authorization.
Management Board
The Bulgarian legislation and the Bank's Articles of Association stipulate that the Management Board must consist of at least three and not more than nine members, and currently the Management Board of BACB AD consists of four members, three of whom are executive members (Chief Executive Officer and executive directors). The members of the Management Board are appointed and dismissed by the Supervisory Board subject to the approval of BNB.
The Bank's Articles of Association stipulate that a quorum of at least half of all members of the Management Board is required to hold a valid meeting and take decisions. As a rule, the decisions of the Management Board are taken by a simple majority, unless it is otherwise required by the law or the Articles of Association. The Management Board, with the approval of the Supervisory Board, elects at least two of its members as executive members (executive directors) to represent the Bank and be responsible for its activities. The members of the Management Board may be re-elected without limitation and may be dismissed at any time by the Supervisory Board. Subject to the provisions of the applicable law, any member of the Management Board may resign by giving six months' written notice to the Bank.

Amendments an supplements to the Articles of Association
The Bank's Articles of Association stipulate that the decision to approve amendments and supplements to the Articles of Association of the Bank can be adopted by a majority of at least two thirds of the voting shares present at the General Meeting of Shareholders. In addition, any change in the Articles of Association is subject to prior approval by BNB.
The amendments and supplements to the Bank's Articles of Association enter into force on the date of the registration of the decision with the Commercial Register and the approval of BNB.

(5) The powers of the members of the Supervisory Board and the Management Board and, in particular, the right to issue or repurchase shares.

Supervisory Board
The main powers of the Supervisory Board include the exercise of constant control over the operations of the Management Board, including the approval of the Bank's business strategy and the Bank's three-year business plan. The Supervisory Board monitors the functioning of the risk management and control systems, as well as the management information systems. The Supervisory Board has the authority to appoint and dismiss the members of the Management Board, to approve the election and authorization of the executive directors (two or more executive members of the Management Board), as well as to withdraw this authorization.

Management Board
The Management Board manages the operations of the Bank in compliance with the law. The Management Board decides on all matters that are beyond the exclusive competence of the General Meeting of Shareholders and the Supervisory Board. The Management Board reports to the Supervisory Board and to the General Meeting of Shareholders.

Share issuance
The increase of the Bank's capital is carried out by issuing new shares in compliance with the applicable legislation, including: (1) in order to attract new funds, (2) to transform part of the Bank's profit into capital, (3) to transform

part of the funds in the Reserve Fund into capital and (4) to convert bonds into shares if the bonds have been issued as convertible.
The Bank's capital may not be increased by increasing the nominal value of already issued shares, as well as by converting bonds into shares if those bonds have not been issued as convertible.
The Bank's capital may not be increased by in-kind contributions or provided that the shares are acquired by certain persons, in violation of the priority right of shareholders (pursuant to Art. 193, 195 and 196(3) of the Commerce Act), except in the cases specifically provided for by law.
Exceptionally, under the conditions provided for in Art. 113(2) POSA (within the framework of the Bank's recovery program or by order of BNB, if this is necessary for the implementation of a merger or tender offer for exchange of shares, as well as for securing the rights of holders of convertible bonds or warrants), the capital of the Bank may be increased according to the procedure under Art. 193, 195 and 196(3) of the Commerce Act. The increase with in-kind contributions is subject to the authorization of BNB.
Pursuant to Art. 24(2) of the Articles of Association of BACB AD, the competent body for adopting decisions to increase the capital of the Bank is the General Meeting of Shareholders.

Share repurchase
The decision to repurchase shares is within the exclusive competence of the General Meeting of Shareholders. In addition, the Bank may repurchase its shares upon the written approval of BNB pursuant to the Credit Institutions Act, the Commerce Act, the POSA and other applicable laws.
The Bank may not exercise its rights on the repurchased shares. These rights may only be exercised after the Bank transfers the shares to third parties.
In 2021 the Bank did not repurchase any of its shares. The Bank does not hold treasury shares. The Bank has not granted loans against its treasury shares, nor has it accepted its treasury shares as collateral. The Bank was not a party to any of the transactions described in Art. 187e and 187f of the Commerce Act.

5. **Composition and functioning of the management and supervisory bodies of the Bank and the committees thereto**

Supervisory Board
As of 31 December 2021, the Supervisory Board of BACB consists of three members:
1. Ms. Tzvetelina Borislavova Karagyozova, Chairperson
2. Mr. Petar Georgiev Atanasov
3. Mr. Martin Boychev Ganev, independent member

The main powers of the Supervisory Board include the exercise of constant control over the operations of the Management Board, including the approval of the Bank's business strategy and the Bank's three-year business plan. The Supervisory Board also monitors the functioning of the risk management and control systems, as well as the management information systems. The Supervisory Board has the authority to appoint and dismiss the members of the Management Board, to approve the election and authorization of the executive directors (two or more executive members of the Management Board), as well as to withdraw this authorization. The approval of the Supervisory Board is also required for the decisions of the Management Board regarding:
- the internal and organizational structure of the Bank and significant organizational changes;
- the internal rules governing the scope, terms and conditions and the procedure for executing Bank's transactions and operations;
- opening and closing of branches;
- increase of the Bank's capital according to the authorization of the Management Board in line with the Articles of Association;
- acquisition and alienation of shareholdings, in the cases provided for by the law and the Articles of Association;
- draft amendments and supplements to the Articles of Association;
- real estate transactions, other than those related to enforcement on loan collateral and exceeding the thresholds set by the Rules of the Supervisory Board and other internal rules of the Bank;
- empowerment of procurators;
- granting loans, forming a large exposure over 10% of the Bank's capital and loans to members of the boards and administrators of the Bank; and
- issuance of bonds with a nominal issue value exceeding 1/3 of the Bank's capital base.

Management Board
As of 31 December 2021, the management Board of BACB consists of four members:
1. Mr. Ilian Petrov Georgiev, member of the Management Board and Chief Executive Officer
2. Mr. Alexander Dimitrov Dimitrov, member of the Management Board and Executive Director
3. Ms. Loreta Ivanova Grigorova, member of the Management Board and Executive Director
4. Ms. Silvia Kirilova Kirilova, member of the Management Board

The Management Board manages the operations of the Bank in compliance with the law. The Management Board decides on all matters that are beyond the exclusive competence of the General Meeting of Shareholders and the Supervisory Board. The Management Board reports to the Supervisory Board and to the General Meeting of Shareholders.
The most important decisions of the Management Board that require approval by the Supervisory Board are described above.

Audit Committee
The Audit Committee of BACB consists of three members, two of whom are members of the Supervisory Board, and one member is independent of the Supervisory Board, as follows:
1. Mr. Martin Boychev Ganev, member of the Supervisory Board, Chairperson of the Audit Committee;
2. Mr. Petar Georgiev Atanasov, member of the Supervisory Board;
3. Ms. Rayka Stoyanova Ontsova, independent member of the Audit Committee

The Audit Committee is a specialized unit of the Bank with functions under the Independent Financial Audit Act.
The Audit Committee is appointed by the General Meeting of Shareholders of the Bank and performs the following functions:
- to control the quality and integrity of the accounting policy, the financial statements and the practices of information disclosure;
- to monitor the processes of financial reporting;
- to monitor the compliance with applicable regulations, tax obligations and relevant internal regulations and business ethics rules;
- to monitor the independence and effectiveness of the internal audit;
- to monitor the external (independent) auditors and monitors their independence in accordance with the requirements of the applicable law or regulatory bodies, including in the case of the provision of additional services;
- to monitor the effectiveness of the internal control systems;
- to monitor the effectiveness of the risk management systems;
- to recommend to the General Meeting to appoint external (independent) auditors to conduct an independent financial audit

Risk Committee
The BACB Risk Committee was established by a decision of the BACB Supervisory Board of 9 September 2014, specifying the functions and obligations of the Committee in compliance with the requirements of Ordinance 7 of BNB on risk organization and management. The Risk Committee consists of the three members of the Supervisory Board as follows:
1. Mr. Petar Georgiev Atanasov, Chairperson;
2. Mrs. Tzvetelina Borislavova Karagyozova;;
3. Mr. Martin Boychev Ganev;

The Risk Committee assists the Supervisory Board and the Management Board in the management, monitoring and control of the risks assumed by the Bank. The Risk Committee also performs the following functions:
- to advise and consult the Supervisory Board and the Management Board on current and future risk tolerance/appetite, as well as on monitoring the implementation of the Bank's risk strategy;
- to monitor the effectiveness of the risk management framework, systems and processes and propose to the Supervisory Board and the Management Board measures to improve the existing organization and controls;
- to check the adequacy of the incentives applied under the Remuneration Policy to the capital, the liquidity, the implementation of the business plan
- to monitor the applied pricing policy and make proposals to the Supervisory Board and the Management Board for adjustments in case of deviations from the business model and the risk strategy;
- to assist the Supervisory Board and the Management Board in monitoring and assessing the capital adequacy, the liquidity and the sources of financing of the Bank;

- to monitor the compliance with the internal rules and their compliance with the regulations.

Remuneration Committee
The Bank does not have a Remuneration Committee as an independent subsidiary body. All functions, obligations and powers related to the management of the remuneration of the Bank in compliance with the BACB Remuneration Policy and the BNB Ordinance No.4 on remuneration in banks are performed by the BACB Supervisory Board.

6. Diversity policy applied by the Bank to management and supervisory bodies

With regard to BACB acting as a "credit institution" within the meaning of the CIA, special statutory criteria are applied in the selection and approval of candidates for members of the Bank's boards, including but not limited to requirements for education, qualifications and professional experience, reliability and suitability, etc.
BACB declares the following information regarding the diversity of the Supervisory Board and the Management Board:

Supervisory Board
- All members of the Supervisory Board of BACB AD have completed higher education with at least Master's educational-qualification degree;
- All members of the Supervisory Board have sufficient qualifications and professional experience in banking for the respective education;
- All members of the Supervisory Board meet the other requirements for holding the respective position in accordance with the requirements of the Credit Institutions Act and Ordinance No. 20 of BNB on issuing approvals for members of the Management Board (Board of Directors) and the Supervisory Board of a credit institution and the requirements in connection with the performance of their functions;
- The composition of the Supervisory Board includes both male and female members (the Chairperson of the Supervisory Board is female and the other two members are male);

Management Board
- All members of the Management Board of BACB AD have completed higher education with at least Master's educational-qualification degree, and four of the members of the Management Board have completed higher economic / financial education, and one member of the Management Board has a university degree in law;
- The executive members of the Management Board (executive directors) have held for at least 5 years managerial positions at a bank or at a company or institution comparable to a bank;
- All members of the Management Board meet the other requirements for holding the respective position in accordance with the requirements of the Credit Institutions Act and Ordinance No. 20 of BNB on issuing approvals for members of the Management Board (Board of Directors) and the Supervisory Board of a credit institution and the requirements in connection with the performance of their functions;
- The composition of the Management Board includes both male and female members (two of the members of the Management Board are female and the other members are male);

In addition, the Bank applies and complies with the following principles as part of the diversity policy for the composition of the Supervisory Board and the Management Board:
- the composition of the Supervisory Board and the Management Board are structured in such a way as to ensure the professionalism, impartiality and independence of their decisions in relation to the Bank's operations;
- after the appointment of the members of the Boards, they familiarize themselves with the main legal and financial matters related to the Bank's operations;
- the members of the Boards are constantly improving their professional qualification;
- the members of the Boards have the necessary time to perform their tasks and responsibilities; the executive members of the Management Board (executive directors) are present daily at the registered address of the Company;

Based on the foregoing, BACB considers that the compliance with the described principles and norms sufficiently guarantees greater transparency in the information provided by the Bank, leads to improved performance at limited costs, better management of non-financial risks, etc. The compliance with and the disclosure of these principles act as a catalyst to increase and improve the Bank's performance in the field of corporate social responsibility which may have a positive impact on the way the Bank is perceived by society and consumers.

The disclosures contained in this Annual Management Report related to the Bank's actions and policies in the field of ecology and environmental protection lead to better resource management and internal awareness of sustainability.

X. INFORMATION UNDER APPENDIX 2 TO ART. 10 OF FSC ORDINANCE 2

(1) Information on the main categories of services provided, revenues and sources of revenues and their dynamics in 2021

Bulgarian-American Credit Bank AD is a licensed credit institution holding a full license to perform all banking activities under the Credit Institutions Act, and respectively - the main categories of services offered by BACB include lending and other financing for its own account and risk and publicly attracting deposits and other repayable funds. Detailed information on attracted deposits and granted loans is provided in Section I "*Review of the financial position*" of this Report.

Sources of revenue and their dynamics in 2021

The table below provides a breakdown of the sources of income of the Bank on a consolidated basis, as well as the variance in revenue by source in 2021 as compared to 2020.

	2020		**2019**		**2021/2020**
INCOME	*000 EUR*	**%**	*000 EUR*	**%**	**%Δ**
Interest Income	25 517	75.85	24 671	77.06	3.4%
Fees and commission income, net	5 976	17.76	4 934	15.41	21.1%
Other non-interest income, net	2 148	6.39	2 412	7.53	-10.9%
TOTAL	**33 641**	**100%**	**32 017**	**100%**	**5.1%**

The interest income represented over 75.85% of the Bank's total income for 2021. For a further discussion, please see section Results of Operations above.

Main markets, sources of funds and concentration of borrowers and lenders

The Bank operates in Bulgaria, where it generates its income.

BACB does not have investments abroad except for funds placed in the interbank money markets and current accounts with international banks with high level credit rating. The debt securities portfolio of the Bank includes mainly Bulgarian government bonds. In 2021 the Bank continued and broadened the presenting of deposit products for individuals and households on the German and Spain Markets. at Y/e 2021 the deposits from Germany represent 3.6% and these from Spain – 0.7% of the total deposits from clients and 3.5% and 0.7% of the liabilities of the Group. Because of the significant number of clients from Germany, there is no single client on the German market with share larger than 10% of the total expenses.

The Loan Portfolio of the Bank includes mainly loans to clients from Bulgaria. As of December 31 2021 and 2020 there are no exposures towards other countries that exceed 10% of the amount of the Bank's assets. Meanwhile there is no single client which have received more than 10% of the operating expenses of BACB (including interest expenses, fees and commissions expenses and non-interest expenses).

For a detailed discussion on sources of funds, please, see section *Capital Resources* above.

(3) Major transactions or transaction essential to the operations in 2021

In accordance with the requirements of Ordinance No. 2, the Bank has adopted a materiality threshold of its transactions equivalent to the thresholds specified under Art. 114 POSA.

In 2021 the Bank did not enter into large-value transactions under Art. 114(1) POSA as regards its assets or liabilities.

(4) Transactions with related parties, transactions outside of the normal scope of activity or unusual transactions

In 2021 the Bank has executed transactions with related parties within the scope of its regular activities and under the market conditions. The main transactions with related parties represent deposits to the managerial and control bodies, credit exposures to subsidiaries and other related parties. For details on transactions with related parties, please see Note 31 to the Consolidated Financial Statements for 2021.

(5) Unusual events and indicators with significant impact on the operations

There are no such events and indicators for 2021.

(6) Off-balance sheet exposures

The unutilized commitments on loans represent funds that are committed but not yet disbursed to borrowers. At 31 December 2021 unutilized commitments on loans represented 8.4% of net loans. For a detailed breakdown of off-balance sheet exposures, please see the Selected Statistical Information above and Note 28 to the 2021 Consolidated Financial Statements of the Bank.

(7) Information on shareholdings and investments

The fair value of the securities classified "at fair value through Other Comprehensive Income" as of 31 December 2021 is presented in Note 17 to the Separate Financial Statements for 2021.

At 31 December 2021 the Bank had the following participations in other companies:

Owner	Company	# of shares held	Nominal value of 1 share	Date of acquisition	% shareholding
BACB	BACB Finance EAD (*previous name Kapital Direct EAD*)	3,000,000	1.00	4/13/2006	100.00%
BACB	BACB Trade EAD	50,000	1.00	6/13/2013	100.00%
BACB	Bulgarian Stock Exchange	20,000	1.00	13/03/2003	0.30%
BACB	Paynetiks AD	34 306	8.00	12.03.2020	7,78%
BACB	Phyre AD	82 657	1.00	12.03.2020	8,7%
BACB	Tiksi AD	5,385	1.00	26.04.2021	6,25%

The main real estates owned or leased by the Bank for operational purposes are the following:

Address	Description	Type of rights	Area (m^2)
2 Slavyanska Str. 1000 Sofia	Head Office building	Lease Agreement valid until December 2026	2,691.43 (78.912% of the total building area)

16 Krakra Str. 1504 Sofia	Operating building	Ownership right	2,321 sq.m
202 Vitosha Blvd. Sofia	South Park Office	Lease Agreement valid until December 2027	172.22
159 Tsarigradsko Shose Blvd. Sofia	Iztok Office	Lease Agreement valid until September 2026	182
13 Henrik Ibsen Str. 1407 Sofia,	Office Paradise	Lease Agreement valid until December 2023	205.30
14 Vanga Str. Petrich	Petrich Office	Lease Agreement valid until January 2025	306
6 Belgrade Str. 4000 Plovdiv	Plovdiv 1 Office	Lease Agreement valid until March 2022	287
152 6th September Blvd. 4000 Plovdiv	Plovdiv 2 Office	Lease Agreement valid until July 2022	115
76 Tsar Simeon Veliki Blvd. 6000 Stara Zagora,	Stara Zagora Office	Lease Agreement valid until March 2023	179
68 Bratya Miladinovi Str. 9000 Varna	Varna Office	Lease Agreement valid until January 2027	253
100 8th Primorski Polk Blvd. Varna	Orbita Office	Lease Agreement valid until March 2024	102.66
5 Adam Mickiewicz Str. Burgas	Burgas 1 Office	Ownership right	157
57 Ferdinandova Str. Burgas	Burgas 2 Office	Lease Agreement valid until April 2022	592
1 Despot Slav Str. Kardzhali	RWS Kardzhali (Remote workplace)	Lease Agreement valid until May 2023	11
3 Stefan Karadzha Str. Kardzhali	Kardzhali Office	Lease Agreement valid until February 2024	167
4 Aleksandrovska Str. Ruse	Ruse Office	Lease Agreement valid until June 2024	182
15 Danail Popov Str. Pleven	Pleven Office	Lease Agreement valid until May 2024	171
39 P. R. Slaveykov Str. Pleven Bulgaria	Commercial premises	Lease Agreement valid until August 2023	62.70
41 Hristo Botev Blvd. Kozloduy	Kozloduy Office	Lease Agreement valid until September 2024	90.60

Orlovets Hotel / Perelik Hotel Pamporovo	Reception / office Pamporovo	Lease Agreement valid until December 2022	5
1 Ivaylo Str. Veliko Tarnovo	Veliko Tarnovo Office	Lease Agreement valid until February 2026	215.80
7 Han Asparuh Str. Chepelare Municipality of Chepelare	Chepelare Office	Lease Agreement valid until March 2023	107
1B Vasil Levski Str. Village of Kazichene. Pancharevo District Sofia	Commercial premises	Lease Agreement valid until October 2029	655.84

As disclosed in the Group's consolidated financial statements for 2021, as of 1 January 2017 the Group has changed its accounting policies concerning the subsequent measurement of its investment properties and the latter have been measured at fair value in the Group's statement of financial position. In accordance with the requirements of the applicable IFRS the comparable information in the prior reporting periods has been restated appropriately and the investment properties held are presented as if they have always been carried under the fair value model. For the reported period Y/E 2021 the Bank disposed of real estate properties, classified as "investment properties" with gross balance value of EUR 3,5 million, while at the same time asquiring properties classified at such for EUR 5 million. For the reporting period upon Management's resolution assets held for sale with balance value of EUR 869 thousand were reclassified as investment properties. The balance value of the investment properties as of December 31, 2021 is EUR 52,9 million (2020: 50,5 million).

The balance value of the assets held for sale as of the same date is EUR 8,9 million (2020: EUR 10,7 million), with newly acquired assets in the period in the amount of EUR 378 thousand and assets with balance value of EUR 1,1 million were realized through sale.
The sum of the two positions show a total increase by 1.1% compared to the previous year.
These assets are subject to future disposition that is facilitated by a specialized unit in the Bank.

Details on these categories at 31 December 2021 and 2020 are provided in Note 19 and Note 21 to the Consolidated Financial Statements of the Bank.

(8) Information on the loan agreements concluded by the issuer and the subsidiaries in their capacity as borrowers.

As stated above, the Bank uses financing from the Bulgarian Development Bank AD under the BDB Forward Partnership Program. A detailed description of the financing agreement parameters is presented above in Part I "Review and selected financial information", Section "Capital resources" of this Annual Management Report.

The subsidiaries of the Bank - BACB Finance EAD and BACB Trade EAD use financing in the form of bank loans provided by the Bank as a lender. A detailed description of the bank loans parameters is presented in the following tables.

BACB Finance EAD
Loan Agreement No. 003940.03 dated 30 September 2014

Lender	BACB AD
Initial amount	EUR 1,000,000
Outstanding portion of the loan as at 31 December 2021	EUR 491,711.32

Maturity date	20 September 2022
Price conditions:	6M Euribor + margin, not less than 4%
Collateral:	Pledge of cash on the account in the amount of EUR 516,404.80

BACB Trade EAD

Loan Agreement No. 026158.01 dated 12 February 2014

Lender	BACB AD
Initial amount	BGN 200,000
Outstanding portion of the loan as at 31 December 2021	BGN 0
Maturity date	20 February 2022
Price conditions:	Management fee - 0.25% Commitment fee - 0.25% Interest rate - 5% - fixed
Collateral:	Pledge on a set of current and future receivables

Loan Agreement No. 026158.03 dated 12 February 2014

Lender	BACB AD
Initial amount	BGN 400,000
Outstanding portion of the loan as at 31 December 2021	BGN 0
Maturity date	20 April 2022
Price conditions:	Management fee - 0.25% Interest rate - 5% - fixed
Collateral:	1. Second-ranking pledge on a set of current and future receivables 2. First-ranking pledge of goods in circulation / under the respective transaction

Loan Agreement No. 026158.06 dated 8 July 2020

Lender	BACB AD
Initial amount	BGN 14,000,000
Outstanding portion of the loan as at 31 December 2021	BGN 13,912,538.96
Maturity date	20 April 2022
Price conditions:	Management fee - 1% Interest rate - 4.5% - fixed
Collateral:	1. First-ranking pledge on a set of current and future receivables 2. First-ranking pledge on accounts 3. First-ranking pledge on a set of oil seed crops 4. First-ranking pledge on financial asset 5. Promissory note

(9) Loans received and extended by the Bank including guarantees and other commitments

The Bank is a lending institution which provides banking services, including through extending loans, providing bank guarantees and gathering deposits, which represent the core of its business activity. For details on the Group's loan portfolio and structure of funding, please, see the discussion above as well as Notes 15, 28, 32 and 22-25 to the Group's consolidated financial statements for 2021.

(10) Use of proceeds from the issuance of new bonds or shares

As at 31 December 2021 the Bank or the companies in the Group have no obligations under bond issues.

(11) Earnings guidance and results forecasts

The Group has a policy not to provide earnings guidance and it does not publish forecasts of its expected results.

(12) Funding strategy and management

Historically the Group's funding strategy has been designed around the longer-term funding requirements of its target markets, and has been aiming to raise wholesale funds from domestic and foreign debt capital markets and international banks. As a result, the Group has not developed a large network of branches as most of its competitors have done.. Results of the deposit raising strategy in the last financial years are excellent and the customer deposits reached EUR 975,82 million as at December 31, 2021.

Further information for the Bank's liquidity is provided herein above in sections "Capital Resources" and "Risk Management" above.

(13) Planned investments and ability to finance

Loans and advances to customers form the main portion of the assets of the Bank. BACB shall continue to pursue its targets for small and medium-sized enterprise (SME) financing and will simultaneously search for diversification of its portfolio through exposures to corporate customers and other sectors of strong fundamentals such as renewable energy as well as the retail banking.

For details on the Bank's ability to finance its loan portfolio and the associated financial risks, please see sections *Capital Resources*, *Liquidity* and *Risk Management* above.

(14) Changes in the governance principles of the Bank and its economic group

In 2021 the Bank did not change its management principles.

The Bank declares that it complies with the National Corporate Governance Code, approved by the FSC Deputy Chairman, responsible for the Investment Supervision Department, as a code of corporate governance under Art. 100n(7) POSA.

A detailed analysis of compliance with the corporate governance principles under the National Corporate Governance Code is presented in Section VIII of the *Corporate Governance Statement* above.

(15) Internal control and risk management

The Bank has clearly defined operational procedures for internal control, which are updated and supplemented as necessary to reflect the Bank's growing business. The Bank's organizational structure and human resources policy is designed to ensure control and management of all areas of banking operations by competent and highly qualified employees. In addition, the Specialized Internal Audit Unit monitors and verifies the implementation of the Bank's internal control systems and reports the results of this review directly to the Supervisory Board and the General Meeting of Shareholders. The Bank's Management believes that the Bank's internal control systems are adequate for the size and operation, and the Bank continues to update and improve them.

More information on risk management can be found in the *Risk Management* section above.

(16) Changes in the Management Board and the Supervisory Board of the Bank

No changes were made in the composition and the number of the Supervisory Board of the Bank during the reporting period.

Within the reporting period and according to a decision of the Supervisory Board of BACB AD of 13 December 2021, changes in the composition and number of the Management Board of the Bank were adopted, expressed in the dismissal of Mr. Vasil Stefanov Simov as a member of the Management Board and Executive Director of BACB AD.

After the registration of the above circumstance with the Commercial Register and the Register of Non-Profit Legal Entities, as of 29 December 2021, the Management Board of Bulgarian-American Credit Bank AD consists of four members, as follows:

1. Mr. Ilian Petrov Georgiev, Chief Executive Officer;
2. Mr. Alexander Dimitrov, Executive Director;
3. Ms. Loreta Ivanova Grigorova, Executive Director;
4. Ms. Silvia Kirilova, member of the Management Board;

As of 29 December 2021, the method of representation of Bulgarian-American Credit Bank AD is as follows: Bulgarian-American Credit Bank AD is represented always jointly by each two of the Chief Executive Officer and the Executive Directors: Ilian Petrov Georgiev, Chief Executive Officer; Alexander Dimitrov, Executive Director; Loreta Ivanova Grigorova, Executive Director.

(17) Shares of the Bank held by members of the senior management

The table below shows the shareholding of the members of the Supervisory and Management Boards in the share capital of the Bank as at 31 December 2021.

	Number of shares held	**% of share capital issued**
Tsvetelina Borislavova	2,465,000	9.98
Martin Ganev	-	-
Petar Atanasov	-	-
Ilian Georgiev	-	-
Aleksandar Dimitrov	-	-
Loreta Grigorova	-	-
Silvia Kirilova	1,600	0.0065%

As stated above, Ms. Tsvetelina Borislavova Karagyozova is a person who exercises control on the direct majority shareholder of BACB - CSIF AD.

Except as stated above, no member of the Supervisory Board and the Management Board of the Bank has any other shareholding in the share capital of the Bank.

During the reporting period, the Bank did not provide options on the Bank's securities to the members of its management and supervisory bodies.

(18) Rights and privileges of the Directors in the purchase of shares or bonds issued by the Bank

The members of the Management Board and the Supervisory Board of the Bank have no special rights and privileges when purchasing securities issued by the Bank. The Bank does not have a bonus plan for distributing options on its own shares.

(19) Judicial, administrative and arbitration proceedings

The Bank is not a party to pending legal, administrative or arbitration proceedings concerning debts or receivables in the amount of 10 and more than 10 per cent of its own capital.

In relation to its normal activity and in particular with the active management of the non-performing loans portfolio, in 2021 the Bank is a party to enforcement and/or insolvency proceedings against debtors for collection of overdue receivables.

(20) Investor Relations Director

Petar Lyubomirov Nikolov
2 Slavyanska Str.
1000 Sofia
Tel.: +35929058271
Fax: +35929445010
E-mail: ir@bacb.bg
Web site: www.bacb.bg

XI. INFORMATION UNDER APPENDIX 3 TO ART. 10 OF FSC ORDINANCE 2

(1) Information on securities that are not admitted to trading on a regulated market

Bulgarian-American Credit Bank AD has not issued any securities not admitted to trading on a regulated market on the territory of the Republic of Bulgaria and other member states.

(2) Information on the direct and indirect holding of 5 percent or more of the voting rights in the General Meeting of Shareholders of BACB AD

Shareholder	Number of shares held (directly and/or indirectly) as at 31 December 2021	Percentage of votes at the General Meeting of Shareholders as at 31.12.2021
CSIF AD	**Direct** holding of 11,277,473 shares	45.68%
Tsvetelina Borislavova Karagyozova - directly and indirectly, as a person exercising control over the direct shareholder CSIF AD (holding 99.99% of the shares of CSIF AD) and	**Directly** holding of 2,465,000 shares **Indirectly** (through the controlled entity CSIF AD) holding 11,277,473 shares	9.98% 45.68%
LTBI Holdings LLC	**Directly** holding of 8,822,068 shares	35.73%

The above information is derived from (1) Book of Shareholders kept by Central Depository AD; (2) Data of the received notifications for disclosure of shareholding under Art.145 and Art.146 of POSA; and (3) Powers of Attorney submitted in connection with the conduct of General Meetings of Shareholders and the accompanying instruments of incorporation of shareholders of BACB AD.

(3) Information on shareholders with special control rights

None of the shareholders of BACB AD has special control rights.

(4) Restrictive agreements between shareholders

The Bank has no information about agreements between its shareholders that could lead to restrictions on the transfer of shares or the exercise of voting rights.

(5) Significant agreements of the Bank which take effect, are amended or terminated due to a change in the control of the Bank in the course of a mandatory tender offer

As far as the Bank is aware, there are no such agreements or contracts.

Internal control and control environment

Internal control includes the following components:

(a) control environment – description of the control environment can be found in sections "Risk Management", item IX Corporate Governance Statement, section 3. "Description of the main characteristics of the internal control and risk management systems in relation to the process of financial reporting" of this Report.

(b) enterprise risk assessment process – description of the Bank's control risk assessment can be found in item IX Corporate Governance Statement, sections "Risk Management" and section "System of control processes for risk identifying, measuring, monitoring and managing";

(c) information system, including its related business processes essential for the financial reporting and communication – description of the Bank's information system can be found in sections "Risk Management" and the section "The Bank is dependent on complex information systems";

(d) control activities – description of the Bank's control activities can be found in sections "Risk Management", "Organizational and operational independence of the risk control function from the business lines monitored and controlled by the Bank" and "Composition and functioning of the management and supervisory bodies of the Bank and the committees thereto"; "Internal control and risk management";

(e) ongoing monitoring of controls – description of the ongoing monitoring and control of the Bank can be found in sections "Organizational and operational independence of the risk control function from the business lines monitored and controlled by the Bank" and "Composition and functioning of the management and supervisory bodies of the Bank and the committees thereto"; "Internal control and risk management".

15 March 2022

ILIAN PETROV GEORGIEV Digitally signed by ILIAN PETROV GEORGIEV

Ilian Georgiev
CEO

Loreta Ivanova Grigorova Digitally signed by Loreta Ivanova Grigorova

Loreta Grigorova
Executive Director

BULGARIAN-AMERICAN CREDIT BANK AD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021
All amounts are in thousands of EUR unless otherwise stated

	Notes	2021	2020
Interest income		25,517	24,671
Interest expense		(2,676)	(3,151)
Net interest income	4	**22,841**	**21,520**
Fees and commission income		6,310	5,195
Fees and commission expense		(334)	(261)
Fees and commission income, net	5	**5,976**	**4,934**
FX trade net income		1,410	1,069
Dividend income		9	14
Net gain on financial assets at FV tgrough profit or loss	7	150	415
Net (loss) / gain on debt instruments at FVOCI	7	-	(12)
Exchange differences, net	6	145	(55)
Other operating income	8	1,714	1,911
Other operating expenses	8	(1,233)	(877)
Share of (loss) of joint ventures		(47)	(53)
Net operating income before impairment		**30,965**	**28,866**
Impairment on financial assets	10	(4,403)	(4,845)
Impairment of non-financial assets		(124)	-
Personnel expenses		(6,505)	(6,042)
Depreciation and amortization	20	(1,866)	(1,866)
Administrative expenses	9	(7,782)	(8,311)
Profit before tax		**10,285**	**7,802**
Tax expense	11	(1,041)	(786)
Profit for the year from continuing operations		**9,244**	**7,016**
Discontinued operations			
Loss from discontinued operations		(3)	-
PROFIT FOR THE YEAR		**9,241**	**7,016**
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss			
Fair value changes on equity instruments at FVOCI, net of tax	27	56	(102)
Items that may be reclassified subsequently to profit or loss			
Debt instruments at FVOCI, net of tax	27		
Change in fair value		(151)	(444)
Changes in allowance for ECL		20	(55)
Reclassification to profit or loss		-	11
Other comprehensive income for the year, net of tax		**(75)**	**(590)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**9,166**	**6,426**

This financial statement has been prepared by the Management Board approved by the Supervisory Board on 15.03.2022

ILIAN PETROV GEORGIEV Digitally signed by ILIAN PETROV GEORGIEV

Loreta Ivanova Grigorova Digitally signed by Loreta Ivanova Grigorova

Katya Svetoslavova Bineva Digitally signed by Katya Svetoslavova Bineva

Ilian Georgiev	Loreta Grigorova	Katya Bineva
CEO	Executive Director	Chief Accountant

Consolidated financial statements for which Ernst & Young Audit OOD with registered number 108 has issued auditors' report dated 31 March 2022 with Milka Natcheva-Ivanova being the Registered Auditor in charge of the audit	Consolidated financial statements for which AFA OOD with registered number 015 has issued auditors' report dated 31 March 2022 with Valia Yordanova being the Registered Auditor in charge of the audit
Milka Kostadinova Natcheva-Ivanova Digitally signed by Milka Kostadinova Natcheva-Ivanova Date: 2022.03.31 17:44:51 +03'00'	VALIA IORDANOVA IORDANOVA Digitally signed by VALIA IORDANOVA IORDANOVA Date: 2022.03.31 18:39:19 +03'00'

The accompanying notes to the financial statements from page 5 to page 111 are an integral part thereof.

BULGARIAN-AMERICAN CREDIT BANK AD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021
All amounts are in thousands of EUR unless otherwise stated

	Notes	2021	2020
Assets			
Cash and balances with the Central Bank	13.1	238,059	204,710
Loans and advances to banks	14	85,867	28,082
Loans and advances to customers	15	637,444	587,066
Financial assets at FV tgrough profit or loss	16	515	1,018
Debt instruments at FVOCI	17	38,420	28,624
Equity instruments at FVOCI	17	2,093	1,762
Debt instruments at amortized cost	18	37,024	19,314
Assets held for sale	21	8,940	10,699
Investment properties	19	52,938	50,517
Other assets	23	13,833	14,939
Investments in joint ventures	22	138	185
Tangible assets and right-of-use assets	20	8,940	7,890
Intangible assets	20	854	897
Total Assets		**1,125,065**	**955,703**
Liabilities and Shareholders' Equity			
Liabilities			
Deposits from banks		95	-
Deposits from customers	24	975,815	815,542
Current tax liabilities		208	213
Other liabilities	26	14,473	11,309
Other borrowed funds	25	16,136	19,496
Deferred tax liabilities, net	11	93	64
Total Liabilities		**1,006,820**	**846,624**
Shareholders' Equity			
Share capital	27	12,624	12,624
Share premium	27	18,944	18,944
Reserves	27	86,677	77,511
Total Shareholders' Equity		**118,245**	**109,079**
Total Liabilities and Shareholders' Equity		**1,125,065**	**955,703**

This financial statement has been prepared by the Management Board approved by the Supervisory Board on 15.03.2022.

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Loreta Ivanova Grigorova Digitally signed by Loreta Ivanova Grigorova

Katya Svetoslavova Bineva Digitally signed by Katya Svetoslavova Bineva

Ilian Georgiev	Loreta Grigorova	Katya Bineva
CEO	Executive Director	Chief Accountant

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Milka Kostadinova Natcheva-Ivanova Digitally signed by Milka Kostadinova Natcheva-Ivanova Date: 2022.03.31 17:46:20 +03'00'	VALIA IORDANOVA IORDANOVA Digitally signed by VALIA IORDANOVA IORDANOVA Date: 2022.03.31 18:45:37 +03'00'

The accompanying notes to the financial statements from page 5 to page 111 are an integral part thereof.

All amounts are in thousands of EUR unless otherwise stated

	Share capital	Share premium	Fair value reserve	Revaluation reserve on own properties	Retained earnings and other reserves	Total
31 December 2019	**12,624**	**18,944**	**1,092**	**2,353**	**67,640**	**102,653**
Reclassification adjustment	**-**	**-**	**(344)**	**-**	**344**	**-**
1 January 2020	**12,624**	**18,944**	**748**	**2,353**	**67,984**	**102,653**
Profit for the year	-	-	-	-	7,016	**7,016**
Fair value changes on equity instruments at FVOCI	-	-	(102)	-	-	(102)
Fair value changes on debt instruments at FVOCI	-	-	(444)	-	-	(444)
Changes in allowens for ECL on debt instruments at FVOCI	-	-	(55)	-	-	(55)
Reclassification to profit or loss on derecognition of debt instruments at FVOCI	-	-	11	-		11
Other comprehensive income, net of tax			(590)	-	-	(590)
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**(590)**	**-**	**7,016**	**6,426**
31 December 2020 (Note 27)	**12,624**	**18,944**	**158**	**2,353**	**75,000**	**109,079**
Profit for the year	-	-	-	-	9,241	**9,241**
Fair value changes on equity instruments at FVOCI	-	-	56	-	-	56
Fair value changes on debt instruments at FVOCI	-	-	(151)	-	-	(151)
Changes in allowens for ECL on debt instruments at FVOCI	-	-	20	-		20
Other comprehensive income, net of tax			(75)	-	-	(75)
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**(75)**	**-**	**9,241**	**9,166**
Transfer of FV reserve of equity instruments at FVOCI at derecognition	-	-	118	-	(118)	-
31 December 2021 (Note 27)	**12,624**	**18,944**	**201**	**2,353**	**84,123**	**118,245**

This financial statement has been prepared by the Management Board approved by the Supervisory Board on 15.03.2022.

ILIAN PETROV GEORGIEV
Digitally signed by ILIAN PETROV GEORGIEV

Ilian Georgiev
CEO

Loreta Ivanova Grigorova
Digitally signed by Loreta Ivanova Grigorova

Loreta Grigorova
Executive Director

Katya Svetoslavova Bineva
Digitally signed by Katya Svetoslavova Bineva

Katya Bineva
Chief Accountant

Consolidated financial statements for which Ernst & Young Audit OOD with registered number 108 has issued auditors' report dated 31 March 2022 with Milka Natcheva-Ivanova being the Registered Auditor in charge of the audit	Consolidated financial statements for which AFA OOD with registered number 015 has issued auditors' report dated 31 March 2022 with Valia Yordanova being the Registered Auditor in charge of the audit
Milka Kostadinova Natcheva-Ivanova Digitally signed by Milka Kostadinova Natcheva-Ivanova Date: 2022.03.31 17:47:43 +03'00'	VALIA IORDANOVA IORDANOVA Digitally signed by VALIA IORDANOVA IORDANOVA Date: 2022.03.31 18:52:37 +03'00'

The accompanying notes to the financial statements from page 5 to page 111 are an integral part thereof. .

All amounts are in thousands of EUR unless otherwise stated

	Notes	2021	2020
Cash flows from operating activities			
Profit for the year		**9,241**	**7,016**
Adjustments to reconcile net income to net cash flow from operating activities:			
Tax expense	11	1,041	786
Depreciation and amortization	20	1,866	1,866
Impairment of financial assets	10	4,421	4,865
Other non-cash items included in profit or loss		(57)	(414)
Revaluation reserve on debt instruments at FVOCI, transferred to profit		-	12
Result on disposal of investment properties	8	32	(136)
Share of loss of joint ventures		47	53
Changes in operating assets and operating liabilities:			
Net change in restricted funds		(2,405)	-
Increase in loans to customers		(57,760)	(82,586)
Net change in financial assets at FV tgrough profit or loss		692	-
Decrease in assets held for sale, net		1,181	500
Decrease / (increase) in other assets		1,055	(594)
Increase in deposits from banks and customers		154,375	100,312
Increase / (decrease) in other liabilities		1,530	(984)
Net cash flow from operating activities before taxes		**115,259**	**30,696**
Taxes paid		(1,007)	(575)
Net cash flow from operations		**114,252**	**30,121**
Net cash from investments			
Purchases of financial assets		(38,391)	(28,214)
Sale and decrease of financial assets		11,442	23,478
Investments in joint ventures		-	(141)
Acquisition of tangible and intangible assets	20	(261)	(653)
Sale of fixed assets		15	1
Acquisition of investment properties	19	-	(15)
Sale of investment properties	19	3,386	1,751
Net cash flow used in investing activities		**(23,809)**	**(3,793)**
Cash flows from financing activities:			
Repayments of other borrowed funds	25	(3,360)	(2,110)
Payments under lease agreements	26	(1,156)	(1,156)
Net cash (used in) / from financing activities		**(4,516)**	**(3,266)**
Net effect of exchange rate changes on cash		2,626	(1,980)
Net change in cash and cash equivalents		88,553	21,082
Cash and cash equivalents at the beginning of the year	13.2	**231,278**	**210,196**
Cash and cash equivalents at the end of the year	13.2	**319,831**	**231,278**
Supplemental cash flow information:			
Interest paid		2,978	3,426
Interest received		26,535	20,740
Received dividends		9	14

This financial statement has been prepared by the Management Board approved by the Supervisory Board on 15.03.2022.

ILIAN PETROV GEORGIEV Digitally signed by ILIAN PETROV GEORGIEV	Loreta Ivanova Grigorova Digitally signed by Loreta Ivanova Grigorova	Katya Svetoslavova Bineva Digitally signed by Katya Svetoslavova Bineva
Ilian Georgiev	Loreta Grigorova	Katya Bineva
CEO	Executive Director	Chief Accountant

Consolidated financial statements for which Ernst & Young Audit OOD with registered number 108 has issued auditors' report dated 31 March 2022 with Milka Natcheva-Ivanova being the Registered Auditor in charge of the audit	Consolidated financial statements for which AFA OOD with registered number 015 has issued auditors' report dated 31 March 2022 with Valia Yordanova being the Registered Auditor in charge of the audit
Milka Kostadinova Natcheva-Ivanova Digitally signed by Milka Kostadinova Natcheva-Ivanova Date: 2022.03.31 17:49:07 +03'00'	VALIA IORDANOVA IORDANOVA Digitally signed by VALIA IORDANOVA IORDANOVA Date: 2022.03.31 19:01:14 +03'00'

1 Corporate Information

The consolidated financial statements of Bulgarian American Credit Bank AD ("BACB"or the "Bank") present the financial position of the Bank and the companies controlled by it as a single reporting entity. As of 31 December 2021, the Group consists of BACB and two subsidiaries: BACB Finance EAD and BACB Trade EAD, as well as a joint venture in which the Bank exercises joint control, through its subsidiary BACB Finance EAD. The two subsidiaries are fully owned and controlled by BACB and they conduct their activities at their registered office located at 2 Slavyanska Str., Sofia, Bulgaria. The Bank generates the main part of the income and represents the substantial part of the assets and liabilities of the Group at 31 December 2021 and 31 December 2020, respectively.

The Bulgarian-American Credit Bank was registered as a Bulgarian joint stock company under the requirements of the Bulgarian Commercial Act in December 1996. Currently the BACB operates a full banking license, issued by the Bulgarian National Bank (BNB) for offering and performing the full scope of banking operations, permitted by the Credit Institutions Act (CIA). From a bank, specialist provider of secured finance with specific lending programs for financing companies and individuals, BACB gradually affirmed itself as a universal bank, offering both corporate and transactional loan programmes, and retail banking through various products in the areas of consumer and mortgage financing. The activities of BACB are conducted through its headquarters in Sofia and operations offices in the country. The offices offer the full scope of banking services, provided by the headquarters.

In April 2006 the shares of the Bank's capital were listed for trading on the Bulgarian Stock Exchange (BSE) and as a result BACB became a public company.

At 31 December 2021 and 31 December 2020, the Group employs 367 and 363 employees respectively. The Bank's seat and registered office is located at 2, Slavyanska Str., Sofia, Bulgaria.

At 31 December 2021 and 31 December 2020 the Bank has a two-tier management system consisting of the Management Board and the Supervisory Board. The operating management of BACB is represented by the Management Board. Those charged with governance are represented by the Audit Committee and the Supervisory Board.

2 Regulatory Environment

Currently the Group's activities and operations are governed by the Credit Institutions Act and all the related legal regulations. The BNB is responsible for supervising the Bank's compliance with the banking laws and regulations. Following the Bank's listing on the BSE, the Bank's activity as a public entity is also subject to supervision by the Financial Supervision Commission (FSC).

3 Summary of Significant Accounting Policies

Basis of preparation and presentation of the financial statements

The consolidated financial statements presented in euro were issued by the Group in addition to the statutory consolidated financial statements presented in BGN. The consolidated financial statements presented in euro are prepared for foreign investors' information purposes only.

The consolidated financial statements comprise the accounts of the Bank and its subsidiaries. The Group prepares and presents its financial statements in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Union (the "EU") and applicable in the Republic of Bulgaria. Reporting framework "IFRS as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional provisions.

3 Summary of Significant Accounting Policies (continued)

Basis of preparation and presentation of the financial statements (continued)

The consolidated financial statements comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes thereto. The financial year for the Group ends at 31 December.

When preparing the financial statements the Group uses the historical cost method as a basis for reporting the assets and liabilities, unless it is specifically indicated that the respective assets are evaluated at their fair value.

The figures in the consolidated financial statements are presented in EUR (euro) and rounded down or up to thousands (thousand EUR), unless otherwise specified.

In general, the group presents the statement of its financial position, based on the degree of liquidity. An analysis of the recovery of assets or the settlement of liabilities within twelve months after the financial position statement (current) and after more than 12 months after the financial position statement (non-current) is presented in the attachments to the financial statements.

The preparation of the consolidated financial statements in conformity with IFRS requires the management to make estimates and assumptions that affect the carrying value of assets and liabilities at the date of the financial statements and the amount of revenue and expenses during the reporting period and to disclose contingent assets and liabilities. The management made approximate estimates and assessments for the purposes of the accounting reporting and disclosure, which may be different from the actual results. The uncertainty, related to the estimations and assumptions made, could lead to actual results, requiring significant adjustments to the carrying value of the respective assets or liabilities in the future.

The Bank and its subsidiaries apply the same accounting policies for reporting similar transactions and other events in similar circumstances.

Changes to the accounting policies and disclosures

The accounting policies of the Group are consistent with those, applied in the previous reporting period, taking into account the amendments to IFRS adopted by the EU and effective for annual periods beginning on or after 1 January 2021. The Group did not significant changes in the accounting poloces applied.

The consolidated financial statements presented in euro are not statutory financial statements. Therefore, there is no legal requirement in reference to ESEF regulations.

3 Summary of Significant Accounting Policies (continued)

New and amended standards and clarifications

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

There are also amendments to IFRS 7 *Financial Instruments: Disclosures* to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. These amendments had no impact on the consolidated financial statements of the Group.

3 Summary of Significant Accounting Policies (continued)

New and amended standards and clarifications (continued)

Standards issued but not yet effective and not early adopted

Listed below are the issued standards that are not yet effective or have not been applied earlier by the Group as at the date of these financial statements. It is disclosed how reasonably they may affect the disclosures, the financial position and the performance when the Group adopts these standards for the first time. This is expected to occur when they become effective.

Amendments to IFRS 16 Covid-19 Related Rent Concessions after 30 June 2021

On 28 May 2020, the IASB issued *Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

Initially, the amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received Covid-19-related rent concessions in 2021, it plans to apply the practical expedient if it becomes applicable within allowed period of application.

IFRS 17: Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.
A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. IFRS 17 has not yet been endorsed by the EU.The standard is not applicable for the Group.

3 Summary of Significant Accounting Policies (continued)

New and amended standards and clarifications (continued)

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

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

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

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

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

Amendments to IFRS 3 Business combinations: Reference to the Conceptual Framework

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations - Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. It is not expected that the amendments would impact the financial position or performance of the Group.

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

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

3 Summary of Significant Accounting Policies (continued)

New and amended standards and clarifications (continued)

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

***Amendments to IAS 37:* Onerous Contracts – Costs of Fulfilling a Contract**

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract 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 amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied prospectively. It is not expected that the amendments would impact the financial position or performance of the Group.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. It is not expected that the amendments would impact the financial position or performance of the Group.

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

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The amendment has not yet been endorsed by the EU. It is not expected that the amendments would impact the financial position or performance of the Group.

***IAS 41 Agriculture* – Taxation in fair value measurements**

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. It is not expected that the amendments would impact the financial position or performance of the Group.

3 Summary of Significant Accounting Policies (continued)

New and amended standards and clarifications (continued)

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

Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. The amendments address the conflict between IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint. The amendments have not yet been endorsed by the EU. The Group will analyze and assess the impact of these amendments on its financial position or performance.

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

In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements* (the PS), in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application of the amendments to IAS 1 is permitted as long as this fact is disclosed. The amendments have not yet been endorsed by the EU. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

3 Summary of Significant Accounting Policies (continued)

New and amended standards and clarifications (continued)

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

Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

In February 2021, the Board issued amendments to IAS 8, in which it introduces a new definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The aspect of the definition for the accounting estimates that changes in accounting estimates may result from new information or new developments is retained by the Board.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments have not yet been endorsed by the EU. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement whether such deductions are attributable for tax purposes to the liability recognised in the financial statements or to the related asset component. This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. An entity should apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, it should also recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations. The amendments have not yet been endorsed by the EU. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

Comparatives

The financial statements provide comparative information in respect of the previous reporting period. The presentation of the data for previous years is adjusted, where necessary, with the aim of comparability with the current year presentation.

3 Summary of Significant Accounting Policies (continued)

Principles of Consolidation

The principles of consolidation did not change compared to previous reporting period. The consolidated financial statements present the financial position and performance for the period of the Bank and its subsidiaries as of 31 December 2021.

The Bank consolidates its investments in other companies where it exercises control over them, i.e. when it defines these companies as subsidiaries. Exercise of control is available if the following conditions are simultaneously met:

- The Bank has real powers to determine, directly or indirectly, the financial and operating policies of the investee.
- The Bank is exposed to or has rights to the variable returns from its involvement with the investee
- The Bank is able to use its powers within the company to influence the amount of its return as an investor

There is a presumption that holding more than half of the voting rights in an entity results in the exercise of control, and on a case-by-case basis all the facts and circumstances available are considered and analysed in order to determine the exercise of control over the investment. At the reporting date, the Group assesses whether there is a change in any of the three control criteria for the consolidated companies. As of 31 December 2021, the Bank defines its investments in BACB Finance EAD and BACB Trade EAD as subsidiaries, due to the fact that it is the sole owner of these companies.

The financial statements of the subsidiaries are fully consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date on which control ceases. The assets, liabilities, revenues and expenses of subsidiaries acquired or sold during the year are included in the consolidated financial statements only for the period in which the Bank exercised control over the investment.

At consolidation, all transactions, balances and unrealized gains between group members are eliminated. The entities in the Group apply consistent accounting and valuation methods for similar transactions, assets and liabilities under similar circumstances.

The change in the shareholding in a subsidiary without loss of control is reported as a capital transaction. If the Bank loses control over the subsidiary, then the related assets and liabilities are excluded from the consolidated financial statements, and any remaining gains or losses are recognized in profit or loss for the period. The rest of the investment, if any, is recognized at fair value.

Business combinations

Business combinations are accounted for by using the acquisition method. The acquisition method requires the investor to evaluate the investment acquired, which undergoes four steps as follows:

- Identification of the acquirer. All facts and circumstances related to the parties to the transaction shall be analysed.
- Determining the date and the cost of the acquisition. The cost of an acquisition in a business combination is determined based on the consideration transferred and the amount of the non-controlling interest in the acquiree. The consideration is the aggregate of the acquisition date fair value of the assets acquired, the liabilities assumed, and the equity instruments issued by the acquirer in exchange for the control acquired. The transaction costs are recognized in the profit or loss for the period.

3 Summary of Significant Accounting Policies (continued)

Principles of Consolidation (continued)

Business combinations (continued)

- Recognition and measurement of the identifiable assets acquired, liabilities and contingent liabilities assumed, as well as non-controlling interests in the acquiree. The acquired assets and liabilities are measured at fair value as at the acquisition date. The non-controlling interests may be determined by two alternative approaches - at fair value as at the acquisition date, or in proportion to the shares in the net assets of the acquiree. For each business combination, the Bank chooses which approach to apply, depending on the particular circumstances. In a business combination achieved in stages, the equity interest in the investment held before the acquisition of control is remeasured to fair value as at the acquisition date. Any differences resulting from the remeasurment are recognized on an ongoing basis in the profit or loss for the period or other comprehensive income, as appropriate.

- Recognition and measurement of goodwill or gain from a bargain purchase. The excess of the acquisition cost over the acquirer's share in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities is recognized as goodwill. If the cost of acquisition is less than the investor's share of the fair value of the net assets of the acquiree, the difference is recognized directly in profit or loss for the period as gain from a bargain transaction. After initial recognition, goodwill arising from business combinations is measured at the acquisition cost less the accumulated impairment. An impairment test is carried out at least once a year, or more frequently if events or changes in circumstances indicate impairment.

Investments in joint ventures

A joint arrangement is an arrangement in which two or more parties have joint control. Joint control exists when decisions regarding the management and operation of the arrangement require unanimous agreement of the parties and neither of them controls the joint arrangement on its own. A joint venture is a type of joint arrangement whereby the parties that have joint control, have rights to the net assets of the arrangement. The parties that share control are joint venturers. For each specific case where the Bank is a party to a joint arrangement, all relevent facts and circumstances are considered and analysed to determine the exercise of joint control over the investment as well as the type of the joint investment. As of 31 December 2020, the Bank has made an analysis and determined that through its subsidiary BACB Finance EAD, it is a jointly controlling partner in IDS Fund AD and the investment is assessed as a joint ventur. The assessment was made on the basis of the following facts and circumstances:

- The joint activity is carried out through a separate registered company - IDS Fund AD.
- The share capital of IDS Fund AD is divided equally between two shareholders. BACB Finance EAD holds 50% of the registered voting shares.
- Each of the shareholders has assumed liabilities up to the amount of its equity holding in the company.
- There is a written agreement (Articles of Association) between the two members regulating the organization and management of the company, according to which valid decisions on all key business issues are taken by a majority of 50% + 1 share of all voting rights. This agreement presupposes joint control due to the fact that neither party can make a sole decision that would have material consequences for the assets, liabilities or the performance of the company.
- From the rights and obligations of the shareholders provided for in the Articles of Association, including in the event of liquidation, it becomes clear that each party is entitled to the net assets of the company up to the amount of its shareholding and thus designate the joint arrangement as a joint venture

3 Summary of Significant Accounting Policies (continued)

Principles of Consolidation (continued)

Investment in joint ventures (continued)

Investments in which the Bank, directly or indirectly through its subsidiaries, is a party to a joint venture, are presented in the consolidated financial statements using the equity method.

Under the equity method, an investment in a joint venture is initially recognized at cost. The carrying amount of the investment is Adjusted to recognise changes in the Group's share of the net assets of the joint venture since the date of the acquisition. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment separately. The changes in the results of the joint venture after acquisition are recognized in profit or loss for the period up to the investor's share, and the changes in other comprehensive income of the company are reported as part of other comprehensive income of the Group.

The financial statements of the joint venture are prepared for the same reporting period as those of the Group. Where necessary, adjustments are made to align the investee's accounting policies with those of the Group.

At the end of the reporting period, the Group assesses whether there is objective evidence that the investment in joint venture is impaired. If there is such evidence, the Group determines the amount of the impairment loss as the difference between the recoverable amount of the investment and its carrying amount, and impairment loss is recognized in profit or loss in item “Share of profit / (loss) from investments in joint ventures".

All amounts are in thousands of EUR unless otherwise stated

3 Summary of Significant Accounting Policies (continued)

Foreign currency transactions and translations

The functional currency of BACB and its subsidiary is the national currency of Bulgaria - the Lev (BGN). Foreign currency transactions, i.e. transactions denominated in currencies other than BGN are accounted for at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated to the statement at the exchange rate valid at the reporting date. Non-monetary assets denominated in foreign currency and measured at historical cost are translated at the exchange rate as of the date of initial recognition. Income and expense items resulting from foreign currency transactions are translated at the exchange rates existing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are measured in BGN at BNB's official exchange rate on the date of preparation of the statements, as follows:

Currency	31-12-2021	31-12-2020
EUR*	1.95583	1.95583
USD	1.72685	1.59386

**fixed rate according to the Law on the Bulgarian National Bank*

The net result in transactions, involving the purchase and sale of foreign currencies are recorded in the comprehensive income statement, as "Income from foreign exchange trading, net". Gains and losses, resulting from the translation of monetary assets and liabilities in foreign currency are presented net in the comprehensive income statement, as "Exchange differences, net".

Financial instruments

Financial instrument is any contract that generates a financial asset for one party to the contract and a financial liability or equity instrument for the other party. A financial asset or financial liability is recognized in the statement of financial position when the Group becomes a party to the contractual terms of a financial instrument resulting in legal rights for the Group to obtain either legal obligations to pay cash or other equivalent. Planned future transactions are not reported as financial assets or liabilities until the Group becomes a party to the contract, regardless of the probability that the transaction may be realized.

Upon their initial recognition, financial assets and liabilities are measured at fair value. For financial assets and liabilities that are not subsequently accounted for at fair value through profit or loss, the transaction costs that are directly attributable to the generation of the financial asset / liability are added to the fair value of the instrument upon initial recognition. Transaction costs for financial instruments that are measured at fair value through profit or loss are recognized directly in profit or loss on initial recognition.

The fair value at the initial recognition of a financial instrument is usually the transaction price.

Financial assets and liabilities that are part of a hedging relationship are accounted for in accordance with the hedge accounting requirements.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating the relevant interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees received and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, for a shorter period to its carrying amount.

3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial assets

Upon initial recognition, financial assets are classified as such and are subsequently measured at amortized cost, at fair value in other comprehensive income or as such at fair value through profit or loss. The management determines the classification of investments at their initial acquisition and reassesses their use at the end of each reporting period, if this is permitted and appropriate.

The classification of financial assets upon initial acquisition depends on:

- Business model that applies to their management
- Characteristics of the contractual cash flows of the financial asset

In order to be classified and measured at amortized cost or at fair value in OCI, the financial asset should generate cash flows that represent "principal and interest payments only" (PIPO) on the outstanding principal amount. This measurement is called the "PIPO test" and is performed at the level of the debt instrument concerned.

The business model applied by the Group to manage financial assets refers to the way in which it manages its financial assets for the purpose of generating cash flows. The business model determines whether cash flows will result from the collection of contractual cash flows, sale of financial assets, or both.

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

1. Debt instruments measured at amortized cost

This category is the most significant category for the Group. The financial assets are measured at amortized cost if the following two conditions are met:

- The assets are managed in a business model in order to collect the contractual cash flows.
- Under the contractual terms of the instrument, cash flows arise on certain dates, which are only principal payments and interest on the outstanding principal.

In this category, the Group reports loans and receivables, investments in debt securities, trade receivables.

The amortized cost is the original value of the instrument adjusted by the principal repayments and the accumulated depreciation of the difference between the original value and the maturity value using the effective interest method and less the loss allowance. In determining the expected future cash flows, the Group takes into account all agreed terms and conditions of the transaction, including premiums, fees and other remuneration payable by the counterparty, which directly affect the yield on the transaction and are an integral part of the effective interest rate. In cases where the cash flows required to calculate the effective interest rate cannot be reliably measured, the Group uses the agreed cash flows over the full contractual term of the instrument for the purpose of calculating the effective interest rate. For credit line and overdraft contracts where future cash flows cannot be reliably determined, interest revenue is recognized on a monthly basis based on the agreed interest rate. Revenue from management fees under such credit agreements is deferred and depreciated on a straight-line basis over the term of the contract as a supplement to interest income.

3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

2. Debt instruments measured at fair value through other comprehensive income (OCI)

The Group measures its debt instruments at fair value in other comprehensive income if the following two conditions are also met:

- The assets are managed in a business model that targets both the collection of contractual cash flows and the sale of financial assets
- Under the contractual terms of the instrument, cash flows arise on certain dates, which are only principal payments and interest on the outstanding principal.

In respect of debt instruments measured at fair value in other comprehensive income, interest income, currency revaluation and impairment losses or their reversal are recognized in profit or loss and are calculated in the same way as those for financial assets measured at amortized cost. The other changes in the fair value are recognized in other comprehensive income. When derecognized, the cumulative change in the fair value recognized in other comprehensive income is reclassified to profit or loss.

Debt instruments at fair value in other comprehensive income of the Group include investments in government securities as well as investments in corporate bonds.

3. Equity instruments determined for fair value measurement through other comprehensive income (OCI) upon initial recognition.

Upon their initial recognition, the Group may choose to classify irrevocably as equity instruments at fair value through other comprehensive income when they qualify for equity in accordance with IAS 32 Financial Instruments: *Recognition* and when they are not held for trading purposes. Classification is determined on an individual basis.

Gains and losses on these financial assets are never reclassified to profit or loss. Dividends are recognized as other income in the income statement when the entitlement to the payment is established except where the Company derives benefits from such proceeds as a refund of part of the acquisition cost of the financial asset in which case the gains are reported in another comprehensive income. Equity instruments determined as such at fair value in other comprehensive income are not subject to impairment testing.

The group has decided to classify in this category its equity investments, which it intends to hold in the long run.

3 Summary of Significant Accounting Policies (continued)
Financial Instruments (continued)

Financial Assets (continued)

4. Financial instruments measured at fair value through profit or loss

The financial assets measured at fair value through profit or loss include financial assets held for trading and financial assets designated at their initial recognition as such at fair value through profit or loss or financial assets that are required to be measured at fair value. The financial assets are classified as held for trading if they are acquired for sale or re-acquisition within a short period of time. The derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not only principal and interest payments are classified and measured at fair value through profit or loss regardless of the business model.

The financial assets measured at fair value through profit or loss include financial assets held for trading and financial assets designated at their initial recognition as such at fair value through profit or loss or financial assets that are required to be measured at fair value. The financial assets are classified as held for trading if they are acquired for sale or re-acquisition within a short period of time. The derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not only principal and interest payments are classified and measured at fair value through profit or loss regardless of the business model.

The Group has no practice to invest in financial assets for profit and has not determined financial assets to be measured at fair value through profit or loss when initially acquired.

Types of financial assets presented in the statement of financial position

Cash and cash equivalents

The cash flow statement shows the change in cash and cash equivalents arising during the reporting period from operating, investing and financing activities. For the purposes of the cash flow statement, cash includes cash in hand and deposits in accounts with BNB without restricted collateralized funds. The Group considers current accounts with correspondent banks without restricted funds as cash equivalents, as well as deposits with banks with an original maturity of up to three months, which are shown in the statement of financial position as "Loans and advances to banks".

Debt securities

Debt securities are presented in the statement of financial position depending on the business model under which they are managed and according to their initial classification.

Interest received on debt securities is presented as interest income in the statement of comprehensive income (in profit or loos).

Equity instruments

Equity instruments that are not designated as investments in subsidiaries, joint ventures or associates are presented in the statement of financial position at fair value through profit or loss, unless they have been selected for fair value presentation in another comprehensive income on initial recognition.

Dividends received from equity securities are presented in the statement of comprehensive income (in profit or loos) as dividend income when the Group acquires the right to receive dividends and the amount of dividends can be measured reliably. In the event that there is clear evidence that dividends represent a reversal of part of the initial cost of an investment, they are not recognized in profit or loss for the period but reduce the carrying amount of the investment.

3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

Loans and receivables

The loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Initially, loans are recognized in the balance sheet at fair value which represents the cash outflow for the generation or purchase on credit, including all transaction costs. The initial recognition of the loan as an asset is the time of the extension of the funds to the borrower. The undrawn loan amounts are reported as off-balance sheet commitments. Loans and receivables are subsequently measured at amortized cost.

Repurchase agreements

Securities sold under a repurchase agreement in the course of banking are reported in the balance sheet in the category where they were initially recorded and their corresponding liability in "Deposits from banks" or "Deposits from customers".

Securities purchased under a sell-back agreement are reported in the balance sheet as "Loans and advances to banks" or "Loans and advances to customers".

The difference between the purchase and sale price of such transactions is accounted for as interest income or expense and is accrued for the period of the transaction based on an effective interest rate.

Derecognition of financial assets

Financial assets (or, if applicable, a part of a financial asset or a part of a group of similar financial assets) are derecognized, when:

- the rights for receiving cash flows from the asset have expired; or
- the rights for receiving cash flows from the asset have been transferred or the Group has undertaken the obligation to fully pay the received cash flows, without material delays, to a third party, under a transfer agreement; whereby (a) all risks and rewards of the financial asset's ownership are substantially transferred by the Group; or (b) all risks and rewards of ownership of a financial assets are neither transferred, nor retained, but the Group has not retained control over the financial asset.

When the Group has transferred its rights for receiving cash flows from the asset or has entered into a transfer agreement, it assesses whether and to what extent it retains the risks and rewards of ownership. When it has neither transferred, nor retained substantially all the risks and rewards of the financial asset's ownership, nor has retained control of it, it continues to recognize the transferred asset to the extent of its continued involvement in it. In this case, the Group also recognizes the related liability. The transferred asset and the related liability are measured on a basis that reflects the rights and obligations retained by the Group.

The on-going involvement in the form of a guarantee for the transferred asset is measured at the lower of the initial carrying amount of the asset and the maximum amount of consideration that may be required to be paid by the Group.

3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

Impairment of financial assets

The Group recognizes an allowance (provision) for impairment of financial assets by applying the so-called model of "Expected Credit Losses" (ECL), i.e. a loss allowance is recognized regardless of whether a specific loss event has occurred. The model applies for initial recognition in respect of all debt instruments that are not reported at fair value through profit or loss, including lease receivables, loan commitments, financial guarantees and contractual assets arising from the application of *IFRS 15 Contracts with Customers.*

No loss allowance is reported for financial assets that are measured at fair value through profit or loss, since the change in fair value is presumed to include potential credit losses.

Loss allowance is also not reported for equity instruments measured at fair value in other comprehensive income due to the fact that any changes in their fair value are recognized in other comprehensive income and subsequently are not reclassified in the income statement.

ECLs are based on the difference between the contractual cash flows due under the terms of the contract and all cash flows that the Company expects to receive discounted to the original effective interest rate. Expected cash flows include cash flows from the sale of the collateral held or other credit enhancements that form an integral part of the terms of the contract.

ECLs are recognized in two stages. Where there is no significant increase in credit risk after the initial recognition of the asset, the loss allowance is based on the expected credit losses that arise as a result of non-performing events that may occur over the next 12 months (12-month ECLs).

For exposures for which there is a significant increase in credit risk from initial recognition, a loss provision is recognized in respect of credit losses expected over the remaining exposure period, irrespective of the occurrence of the default (ECLs over the lifetime of the instrument). In this regard, the credit risk assessment and its change over the initial provision period is a key point in determining the loss allowance. The loss allowance reflects not the level of credit risk in general, but its relative change at the reporting date and its measurement is related to many assumptions and estimates.

The change in the loss adjustment is recognized as a result of impairment in profit or loss for the period.

When in subsequent periods the credit quality of the financial asset improves so that there is no significant increase in credit risk compared to the initial recognition of the asset, the allowance is remeasured on the basis of the expected credit losses for 12 months.

With respect to trade receivables and assets under contracts with clients, the Group applies a simplified approach for ECL calculation. Therefore, it does not track the changes in credit risk but instead recognizes a provision for loss on the basis of the ECL for the entire duration of the instrument at each reporting date. The Group has created a provisioning matrix based on historical experience of credit losses, adjusted by forecast factors specific to the debtors and the business environment.

3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial Assets (continued)

Impairment of financial assets (continued)

For receivables from banks and debt instruments at fair value in other comprehensive income, the Group applies low credit risk based impairment. For each reporting date, it determines whether the debt instrument is assessed as an instrument with low credit risk using all reasonable and substantiated information that is available without incurring unnecessary expenses or efforts. In this assessment, the Group analyses the available information on the credit rating of the instrument. In addition, the Group assesses whether there is a significant increase in credit risk in the cases where the payments on the instrument are past due over 30 days. The Group's policy is to assess the ECLs for these instruments (receivables from banks and debt instruments at fair value in other comprehensive income) on a 12-month basis. However, when there is a significant increase in the credit risk after the occurrence, the provision is based on the ECLs for the entire duration of the instrument. The Group uses the ratings to determine whether the credit risk of the debt instrument is significantly increased and to prepare an approximate assessment of the ECLs.

The Group considers a financial instrument as a non-performing instrument when the contractual payments are in arrears over 90 days. In certain cases, however, it may treat a financial asset as a non-performing asset when internal or external information indicates that it is unlikely that the Group will receive the full amount of the outstanding amounts under the contract before taking into account any credit improvements it holds.

Financial assets are derecognized when there is no reasonable expectation for the collection of cash flows under the contract. The amounts subsequently collected under derecognized loans are recognized as income for the current period in reduction of the expenses on the ECLs.

Reclassification of financial assets

Under certain circumstances, non-derivative financial assets at fair value may be reclassified at assets at amortized cost and vice versa. Such reclassification is only allowed if the business model in which the assets are managed is changed. The change of the business model is determined by the management of the Group as a result of external and internal changes that are material to the operating activities. Changes may also occur when reorganizing the operations as a result of changed goals of the business model. Changes to the initial classification of financial assets are expected to occur in relatively rare and limited cases.

The new accounting is applied for future periods after the reclassification date when the business model was changed without recalculating the results for previous periods. The reclassification date is the first day of the first reporting period following the change in the business model that resulted in the reclassification.

3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Financial liabilities

Financial liabilities that are not derivatives or at acquisition are not classified as at fair value through profit or loss are measured at amortized cost. Initially they are recognized at 'cost', i.e. fair value of the cash flows received at the liability occurrence less the transaction costs. Subsequently any difference between net proceeds and the redemption value is recognized in the profit or loss over the period of the instrument using the effective interest method.

The Group's financial liabilities include deposits, borrowed funds, issued bonds and other trade payables and reflect the Group's commitments to repay the liabilities due at maturity through cash or other financial assets. The Group has not designated financial liabilities for accounting at fair value through profit or loss and recognizes all its financial liabilities at amortized cost using the effective interest method.

Financial liabilities are written-off from the balance sheet, if it has been repaid, i.e. when the liability, specified in the contract has lapsed or cancelled or expired. The replacement of an existing financial liability by another debt instrument, by the same creditor with significantly different terms and conditions, or significant modification of the terms and conditions of an existing financial liability, is reported as a derecognition of the initial financial liability and recognition of a new financial liability. The difference between the carrying values of the original and the new liability, is recognized in the statement of comprehensive income (in profit or loos).

Offsetting financial assets and liabilities

The Group does not allow the offsetting of financial assets and liabilities unless this is permitted by a specific standard or an explanation. Financial assets and liabilities may be offset and the net amount reported in the statement of financial position only when the Group has a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Derivative financial instruments and hedging

In the normal course of business, the Group enters into contracts whose value varies according to changes in certain market variables and require no initial investment, or require minor net investment compared with the nominal contract value. Such contracts are financial instruments called derivatives. Derivatives are classified as held for trading or for hedging depending on their purpose in purchasing.

Derivative financial instruments are initially recognized initially at their acquisition cost (including transaction costs) and subsequently are re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Derivative financial instruments and hedging (continued)

In its operations, the Group is exposed to various market risks. The defined Basic Banking Activities Development Strategy is geared to optimal management of the different types of risk in order to minimize their negative impact on performance. To mitigate the risks and under certain circumstances, the Group may choose to use different financial instruments to hedge individual risk components inherent in core banking assets and/or liabilities. Hedging is related to hedging instruments and hedged items. The use of hedging instruments with the intention of reducing the exposure to certain risks may result in accounting mismatches and reporting variable results that do not properly present the hedging objectives.

Such mismatches arise when the recognition and subsequent recognition bases of the underlying (hedged) position and the hedging instrument are different. In order to properly report the results of hedging and to harmonize the effect on the statement of financial position, hedge accounting rules apply. The Group has decided to apply the requirements of IFRS 9 in respect of hedge accounting. In cases where the reporting of gains/losses on the hedging instrument and the hedged item in profit or loss naturally coincides over time, it is not necessary to apply accounting hedging. By applying hedge accounting rules, the Group recognizes the gains/losses on the hedging instrument simultaneously with the occurrence of losses/gains on the hedged item up to the hedge effectiveness.

During the period, the Group did not report derivative financial instruments and/or hedges.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer of the guarantee to make specified payments to reimburse the holder as a result of the failure of a third party - debtor to comply with commitments made that have been guaranteed. Financial guarantee contracts are initially carried at their fair value on the date the guarantee was given, which is likely to be the premium received at inception. No receivables for the future premiums are recognized. The income from commission fees is deferred, based on the linear method, along the period, to which such fees refer. Subsequently, the Group's liabilities under financial guarantee contracts are measured at the higher of the amount initially recognized less amortization and the provision that should be accrued for the Group to meet its contractual obligations arising at the reporting date. The expected credit losses, related to the financial guarantees issued, are recorded in the statement of comprehensive income (in profit or loos), in the line "Impairment of non-financial assets". The likelihood of an obligation for payment by the Group under such contracts is estimated based on historical experience with similar instruments.

Investment properties

In the course of its operating activities and under certain circumstances, the Bank acquires real estate as a result of legal proceedings brought against debtors on loans for non-recovery. Such assets are classified as held for sale or as investment properties depending on the Management intention and on the possibility for quick disposal.

Investment properties are real estate - land and/or buildings held primarily to earn income from rent and/ or for capital appreciation or both and that are not occupied by the Group.

Recognition of investment properties as an asset takes place only when it is probable that the future economic benefits that are associated with the estate will flow to the entities in the Group and when the cost can be determined reliably. This is usually from the day when all the benefits and risks/control associated with/on the asset are transferred to the Group.

3 Summary of Significant Accounting Policies (continued)

Investment properties (continued)

Investment properties are measured initially at cost, including transaction costs. Ongoing costs associated with servicing the asset are not included in the carrying amount and are reported as an expense for the period. Improvements made after the date of initial recognition are included in the value of the investment property as long as it meets the criteria for recognition of an asset.

For subsequent reporting, there are two alternative methods - a fair value model and a cost model, and the Group has decided to use the fair value model. In accordance with IAS 40 *Investment Property*, this model requires, after initial recognition, that investment property to be measured and stated at fair value without depreciation. Gains or losses arising from a change in the fair value are included in the profit or loss for the period in which they arise. Determination of fair value is made in accordance with IFRS 13 *Fair Value Measurement* and reflects market conditions at the reporting date. Licensed independent valuators (appraisers) with the necessary professional qualifications and experience carry out the update of the fair value of the investment property annually.

When property, plant and equipment is transformed into investment property, as a result of change in use, the Group applies its accounting policy, regarding properties, plant and equipment, until the date of change of the use. The difference between the balance-sheet value and the fair value as of the date of the change is to accounted into the profit or loss for the period.

Under certain circumstances, the Group takes action to develop land classified as investment property in order to build residential and/or commercial premises that it subsequently intends to realize through a sale. When the Group becomes a party to a contract providing for similar developments, the asset ceases to be reported as an investment asset and is presented as an asset under development in the line "Other assets" in the statement of financial position.

The revenues from investment properties are recorded in the statement of comprehensive income (in profit or loos) in the Other operating income item. This amount includes the income from leased investment properties, which is recorded in the period to which it refers, in accordance with the lease contract signed. The result from the sale of property, classified as investment property is carried at Other operating income when the result is in the form of gain and – in Other operating expenses when the result is a loss, respectively. The current costs, related to the maintenance and operation of the investment properties are disclosed as a part of the Other operating expenses item in the comprehensive income statement. Detailed information regarding the income and costs, related to the investment properties is provided in Note 8 to these statements.

An investment property is derecognized upon its disposal when the control on it is transferred or when it is permanently decommissioned and no economic benefits are expected from such disposal. The gains or losses, when derecognizing an investment property, are disclosed in the period of such derecognition.

Assets held for sale

Real estate and other tangible assets acquired from disposal of collateral on foreclosed loans or assets acquired exclusively with a view to subsequent disposal in the near future are classified as assets held for sale and are initially measured at cost. The classification of properties as assets held for sale happens at initial recognition and depends on the Management intention and their plan for assets disposal.

The Management is actively seeking realization of assets classified as held for sale, aiming to complete the sale within one year period after the classification. After initial recognition, such assets are carried at the lower of their carrying amount or at their fair value less the cost to sell. No depreciation is accrued on such assets.

Income and costs, related to assets, classified as Assets held for sale are recorded in the item lines “Other operating income” or “Other operating costs” of the comprehensive income statement, respectively. Detailed information regarding any such income and costs can be found in Note 8 of these statements.

All amounts are in thousands of EUR unless otherwise stated

3 Summary of Significant Accounting Policies (continued)

Tangible and intangible assets

Tangible and intangible assets are initially recognized at cost, including direct transaction costs. Two alternative models apply for subsequent reporting: the cost model and the revaluation model, depending on the class of asset. The properties, used in Group's operations – office buildings and the adjacent terrains – are reported based on the revaluation model, where after initial recognition the asset is carried at revalued amount, the latter being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Upon revaluation any depreciation accumulated to the date is eliminated against the gross amount of the asset and the net amount is restated in relation to the fair value.

If the asset's carrying amount is increased as a result of revaluation, the increase is recognized in other comprehensive income and is accumulated in equity as revaluation reserve of assets, net of taxes. In the event of a reduction in the carrying amount of the asset as a result of revaluation, netting with previous increases, the reduction shall be accrued against the revaluation reserve.

All other reductions in the carrying amount of the asset are reported to the profit or loss for the period. Revaluations are to be performed regularly to insure that the carrying amounts of the assets do not differ materially from their fair values at the reporting date. The depreciation of revalued assets is reported on a regular basis in the profit or loss for the period. Upon subsequent derecognition of a revalued asset, the relevant formed revaluation reserve is transferred directly to results from previous years, without being reported to the profit or loss for the period.

After the initial recognition, all other tangible and intangible assets are measured according to the cost model, i.e. at cost less accumulated depreciation and impairment losses.

Subsequent repair and maintenance costs are included in the profit or loss at the moment these are incurred, unless there is clear evidence that they will result in increased economic benefits from the use of the asset. Such costs are then charged to the carrying amount of the asset.

Land and buildings comprise the Bank's own premises. Land is not subject to depreciation. Depreciation and amortization of other assets is accrued based on the straight-line method over the estimated useful life of the asset. The assets' useful lives are periodically reviewed and adjusted if appropriate. No adjustments have been made during the reporting period.

Annual rates of depreciation and amortization used in the consolidated financial statements are as follows:

	2021	**2020**
Tangible assets		
Buildings	3%-4%	3%-4%
Right-of-use assets	Over the contracted period	Over the contracted period
Computers and hardware	25%	25%
Office equipment	20%	20%
Vehicles	20%	20%
Office furniture	10%-15%	10%-15%
Intangible assets		
Software and licenses	15%-25%	15%-25%
Leasehold improvements	Over the contracted period	Over the contracted period

3 Summary of Significant Accounting Policies (continued)

Tangible and intangible assets (continued)

Long-term assets are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its recoverable amount, the asset is impaired and the Bank reports an impairment loss. On disposal of tangible assets, the difference between the carrying amount and the sales price of the asset is reported as profit or loss for the current period in the item line “Other operating income”.

No residual value is recorded with respect to the aforesaid asset classes. At the end of the reporting period, the significance threshold value, adopted by the Group, for the recognition of tangible fixed assets, amounts to EUR 153(BGN 300). Properties, plant or equipment are derecognized upon their discard and the transfer of the control on it or when no further economic benefits may be expected from their continued use.

Inventories

Inventories are represented mainly by goods in stock held by a subsidiary and are valued at the lower of cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Leases

A lease contract is a contract or part of a contract under which the right to use an asset or assets for a specified period of time is transferred for consideration. The assessment of whether a contract is a lease or contains elements of a lease is based on the circumstances existing at inception of the contract.

The Group as a Lessor

The Group classifies its lease contracts as finance or operating leases at the conclusion of the contract. Contracts that provide for the transfer of all risks and benefits of use and ownership of the asset to the lessee are classified as finance leases. Assets sold under finance leases are recognized as receivables at their present value and included in “Loans and advances to customers” in the statement of financial position. Revenue for the reporting period from finance leases is recognized using the effective interest rate, which reflects a constant return on assets throughout the contract period.

Contracts that are not classified as finance leases at inception are recorded as operating leases. Rentals received under operating lease contracts are recognized on a straight-line basis over the term of the contract and are recognized in profit or loss for the period in item Other Operating Income.

The Group as a Lessee

The Group applies a single accounting model for all lease contracts the 'right-of-use-asset' model.

The Group is party to a number of long-term real estate lease contracts for the purposes of its operating activity. As a result of the changed accounting policy, the right-of-use-assets and corresponding liabilities, which represent the present value of the lease obligations for the term of the contract, are recognised in the statement of financial position. Lease assets and liabilities are recognised at the date on which the assets are available for use by the Group. The right-of-use-assets are presented in the statement of financial position within Tangible Assets item and the corresponding lease liabilities within Other Liabilities item.

3 Summary of Significant Accounting Policies (continued)

Leases (continued)

The Group as a Lessee (continued)

The right-of-use-asset is initially measured at cost, considering:

- the amount of the lease liability recognised;
- the lease payments made so far (if any);
- the initial direct costs of the transaction
- the estimated future costs of disposing of the asset, recorded as a provision (if any).

For the subsequent reporting of these assets, the Group has chosen to apply the cost model. In applying this model, the right-of-use-asset is measured at cost, less any accumulated depreciation and impairment losses and adjusted for subsequent remeasurements of the lease liability. The right-of-use-assets are depreciated on a straight-line basis from the beginning of the contract to the end of the useful life of the asset or to the end of the lease term if the underlying asset is subject to return to the lessor. Depreciation expense is recognized in profit or loss for the period as part of the total depreciation expense.

The lease liability is initially measured at the present value of the lease payments to be made over the lease term, discounted at an incremental discount rate at the beginning of the lease because the interest rate set in the contract cannot be reliably determined. The incremental interest rate reflects the estimated cost of financing the lessee on market terms. To determine the incremental interest rate, the Group uses information about the cost of its long-term borrowings - the interest rate on deposits with a maturity of more than one year or other loans received. The Group has chosen to use as a reference the interest rate on long-term financing received from BDB.

After initial recognition, the lease liability increases with the interest and decreases with the lease payments made. In addition, its carrying amount is remeasured if there is a modification, a change in the lease term, a change in the lease payments resulting from changes in the index or the interest rate used to determine them, or a change in the measurement of the option to buy the underlying asset. The remeasurements are treated at the same time as an adjustment of the liability and the right-of-use-asset.

The subsequent lease payments are recognized in proportion as a decrease in the financial liability and as interest expense for the relevant period so as to achieve a constant interest expense on the remaining balance of the liability. Variable lease payments that do not depend on an index or interest rate are recognized as expense during the period in which the event or condition that triggers the payment occurs.

In the Income Statement, interest expense on lease liabilities is presented separately from the depreciation expense of the right-of-use-asset. In the Cash Flow Statement, payments related to the lease liability are presented as cash flows from financial operations.

Short-term leases and low-value asset leases

The Group applies the IFRS 16 exemption from the recognition of lease liabilities and the right-of-use-asset in respect of:

- short-term lease contracts with a term of up to 12 months with no purchase option
- lease contracts for assets designated as low-value assets - the value of a new analogous asset should not exceed approximately USD 5,000 (e.g. office equipment)

In these cases, the lease contracts are recognized as a rental expense in profit or loss for the period determined on a straight-line basis over the term of the contract.

3 Summary of Significant Accounting Policies (continued)

Taxation

Income tax for the reporting period comprises current and deferred tax. Other taxes that are not directly related to income for the period are reported as operating costs with the relevant balances at the end of the reportig period included in Other liabilities.

The Group measures income tax in accordance with the applicable laws and regulations. The income tax is calculated, based on the taxable profit, obtained upon transformation of the financial result, according to the requirements of the Corporate Income Taxation Act.

The current tax assets and liabilities for the current and previous periods, are recognized at the amount, which is expected to be recovered from or paid to the tax authorities. The tax rates and tax laws and regulations, effective or significantly adopted at the date of the statement of financial position are applied for the calculation of the current taxes. In accordance with the Corporate Income Taxation Act, the nominal tax rate for 2021 and 2020 is 10%.

Deferred taxes are calculated using the liability method by taking into account all temporary differences at the reporting date arising between the value of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates that are expected be in force in the period when the asset is disposed or the liability is settled as far as they may be reliably determined. The calculation of deferred tax liabilities and assets reflects the tax consequences related to the expectations of the Group at the reporting date for disposal of certain assets, respectively, the repayment of certain liabilities. Deferred tax is recognized regardless of when reversal of temporary differences is expected to occur. Temporary differences arise primarily in the context of different rates of depreciation of fixed assets and investment properties for taxation and accounting purposes, in terms of the valuation or revaluation of certain assets and liabilities, etc. (Note 11)

Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each reporting date, the Group reviews the recognized tax assets and revaluates them depending on the expectations for disposal. In case of reduced probability of achieving tax benefits, the deferred assets are reduced or removed. Deferred tax liabilities are recognized for all taxable temporary differences.

The Group offsets deferred tax assets and liabilities only when there is a legally enforceable right to deduct current tax assets against current tax liabilities and deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable enterprise.

Deferred taxes are charged directly in the equity, when resulting from positions, which are reported directly in the equity.

Share capital

The share capital is recorded at the nominal value of the issued and paid-in shares. The proceeds from the issued shares, exceeding their nominal value, are reported as premium reserves.

The costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Dividends on ordinary shares are recognized in equity in the period in which they are approved by the shareholders. Dividends for the period declared after the date of the financial statements, are disclosed as an event after the reporting date.

Cash dividends to the shareholders

Liabilities for cash distributions to the owners are recognized, when the respective distribution has been approved by them and do not depend on the Group. The corresponding amount is debited directly to the equity. The Bank and its subsidiaries did not distributed any dividends in 2021.

3 Summary of Significant Accounting Policies (continued)

Provisions

Provisions for legal claims or other obligations are recognized when the Group as a result of a past event, has a present legal or constructive obligation whose repayment is likely to be an outflow of economic benefits. Provisions are recognized in the event that the amount of future cash outflows can be reliably determined.

Employee benefits

The short-term employee benefits include salaries, remunerations, intermediate and annual bonuses, social security contributions, and annual compensable employee leaves, which are expected to be fully settled within 12 months after the end of the reporting period. When the Group receives the service, these are recognized as personnel costs in the profit or loss or are capitalized in the value of the asset. The short-term employee benefits are measured at the non-discounted amount of the expected settlement costs.

The retirement compensations have been calculated in accordance with the Labor Code. By virtue of the applicable regulations, the Group is obliged to pay its employees upon retirement, either two or six gross monthly salaries, depending on the working experience of the respective employee. If an employee has worked at the Group for 10 years, he/she receives six gross monthly salaries upon retirement, and if he/she has worked for less than 10 years – two. The employee retirement benefits plan is partially funded only in respect of liabilities expected to arise in the next ten financial years. The Group determines its liabilities for the payment of employee benefits upon retirement, applying the actuarial method of the estimated credit units.

After the calculations made, the Group has established that the total amount of the retirement provisions is insignificant for the financial statements.

Fair value measurement

According to its accounting policy, the Group measures certain financial assets at fair value at the reporting date, as well as certain non-financial assets such as land, buildings used for own purposes and its investment properties.

The fair values of the financial instruments measured at amortized cost and non-financial fixed assets, accounted for at their acquisition cost, less the accumulated depreciations and impairment losses, are disclosed in Note 30.

Fair value is the price that would be received from the sale of an asset or paid for the transfer of a liability in a normal transaction between market players (an arm's length transaction) at the evaluation date. The fair value evaluation is based on the assumption that the transaction for the sale of an asset or the transfer of a liability takes place:

- on the main market for the respective asset or liability, or
- if there is no main market, on the most favorable market for the respective asset or liability.

The main or most favorable market must be accessible by the Group.

The fair value of the asset or liability is measured, applying the assumptions, which the market players would make when determining the price of the asset or liability, if they act to their best economic interest.

The measurement of the fair value of non-financial assets, takes into consideration the capability of a market player, to generate economic benefits from using the asset, according to its most efficient and best use, or by selling the asset to another market player, who will use the asset, according to its most efficient and best use.

The Group uses evaluation methods, suitable for the respective circumstances and providing sufficient data for the evaluation of the fair value, maximizing the use of appropriate monitored input data and minimizing the use of non-monitored input data.

All the assets and liabilities, evaluated at their fair value or requiring disclosure of the fair value in the financial statement, are placed in categories, based on the fair value hierarchy, as detailed below, based on the lowest level of used input data, having significant effect on the measurement of the fair value in general:

3 Summary of Significant Accounting Policies (continued)

Fair value measurement (continued)

Level 1 – Bid (non-adjusted) prices on the asset markets for identical assets or liabilities are used

Level 2 – Evaluation methods are employed, where the lowest level of used input data, significant for the fair value measurement, is monitored either directly or indirectly

Level 3 – Evaluation methods are employed, where the lowest level of used input data, significant for the fair value measurement, is not monitored

For assets and liabilities, measured on a regular basis at their fair value, the Group reviews their categorization at the relevant level in the fair value hierarchy (based on the lowest level of used input data, having significant effect on the measurement of the fair value in general) at the end of the reporting period and determines whether it is necessary to make transfer(s) from one level to another.

Usually the evaluation of the fair value of the significant assets (such as land and buildings) is carried out by external valuators. The need of external valuators is assessed each year by the Management. The external valuators are selected based on their professional experience, reputation and independence. After discussions with the specialist valuators, the Management decides what evaluation methods and input data are most appropriate for each separate case.

At each reporting date, the Management carries out an analysis of the changes in the values of the assets and liabilities, which are subject to revaluation, according to Group's accounting policies. This includes a review of the key input data, used in the latest measurement and their comparison to appropriate historical information, such as contracts signed and other relevant documents. Together with the evaluation specialists, the Management compares the changes in the fair value of each asset or liability, to appropriate external sources, in order to decide whether the changes are reasonable. For the purposes of disclosing the fair value, the Group assigns the assets and liabilities to various classes, depending on their nature, characteristics and risk and the respective level in the fair value hierarchy, as detailed above.

Interest income and expense

Interest income and expense are recognized in the profit or loss for the period for all interest bearing assets and liabilities using the effective interest method and in compliance with principle of accrual accounting. Interest income or expense on securities or other debt instruments is based on contractual interest rate and includes unwinding of the discount or the premium on the instrument aswell.

When loans are identified as impaired, their interest income is recognized using the effective interest method on the net carrying amount of the instrument, i.e. after deduction of the loss allowance. Actual interest income on impaired loans is recognized in profit or loss for the current period when it is received by the Group.

3 Summary of Significant Accounting Policies (continued)

Fees and commission income

Loan commitment fees and loan management fees are deferred and recognized in the profit or loss for the respective period, as part of the effective interest rate.

The Groupe has identified the following 3 performance obligations according to IFRS 15 Contracts with customers:

- Sevices related to transactions – revenue is recognised over time as the customer simultaneously receives and consumes the benefits due to the short term of providing the services. The fees for these sevices are based on the Terms and conditions of the Bank and represent fixed amount per transaction corresponding to the customers' benefit. The Groups applies the practical expedient in IFRS 15.B16 and recognizes the determined fee income from the transaction when completed.
- Fees for issuing guarantees and letter of credits - revenue is recognised over time as the customer simultaneously receives and consumes the benefits. The transfer of the benefits to the customer is consistent over time thus the Groupe uses a straight-line method for amortization of fees over the contracted term. The fees for these sevices are fixed, calculated on the nominal amount of the guarantee or the letter of credit.
- Deposit accounts - revenue is recognised over time as the customer simultaneously receives and consumes the benefits. The fees for these sevices are based on the Terms and conditions of the Bank and represent fixed amount on a monthly base corresponding to the customers' benefit transferred. The Groups applies the practical expedient in IFRS 15.B16 and recognizes the determined fee income from the transaction when completed.

Fiduciary assets in safekeeping arrangements

The Group keeps assets on behalf of its clients, as an investment agent. Such assets are not disclosed in the statement of financial position, because these are not assets of the Group.

Operating segments

The Group falls within the scope of IFRS 8 - Operating Segments - because it issues debt instruments, which are traded on a public market and consequently submit their financial reports to the Financial Supervision Commission (FSC), as the regulatory authority. Nevertheless, the Group does not provide additional disclosures relating to operating segments due to the nature of the regulatory environment in which it operates, the inability to determine the segments in operational activity, as well as lack of requirement to report them separately for the purposes of accountability to the Management.

3 Summary of Significant Accounting Policies (continued)

Judgments, estimations and assumptions

The preparation of the consolidated financial statements of the Group requires from the Management to make judgments, estimations and assumptions, which concern the reporting periods, costs, assets, liabilities and concurrent disclosures, as well as the disclosure of contingent liabilities.

The uncertainty, regarding these assumptions and estimations may result in significant adjustments to the balance value of the assets or liabilities in subsequent reporting periods.

Judgments

In the process of implementation of the accounting policy of the Group, the Management has made the following judgments in addition to those, including estimations and assumptions, which have the most significant effect on the amounts, recognized in the financial statement.

Going concern

When preparing the financial statement the Group's management has made an assessment of the ability of the Group companies and the Group, itself, to continue as a going concern for the foreseeable future. The management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue in business and therefore the financial statement is prepared on the going concern basis. Also the managemet does not expect any materilal uncertainties, events or circumstances that may prevent the subsidiaries to carry out their operating activity.

Leases – Classification of leased property (the Group as a lessor)

The Group has leased some of its investment properties and properties held for sale. As a lessor, based on the terms and conditions of the lease contracts, it has determined that it preserves all the significant risks and benefits, resulting from the ownership of such properties and that the lease term does not cover much of the economic life of the property and therefore accounts for these contracts as operating lease. (Note 8)

Determining the lease term for contracts with renewal and termination options (the Group as lessee)

The Group determines the lease term as the irrevocable term of the contract, together with any periods covered by the option to extend it, if it is reasonably certain that the option will be exercised, or any periods covered by the option for termination of the lease, if it is reasonably certain that the option will not be exercised. Some of the leases include extension and termination options. The Group considers all material factors that create an economic incentive to exercise either the renewal option or the termination option to determine the lease term for which it calculates lease liabilities as reliably as possible. In the event of significant events or changes in circumstances affecting the Group's ability to exercise or not the relevant option, the lease term is adjusted according to the changed circumstances.

Leases - Estimated incremental borrowing rate (the Group as lessee)

The Group cannot reliably determine the interest rate implicit in the lease, therefore, an incremental borrowing rate is used to measure the lease liabilities. The incremental borrowing rate is the interest rate that the Group would pay to borrow the funds necessary to acquire an asset of similar value to the right-of-use-asset for a similar period and with similar security in a similar economic environment. Therefore, setting the incremental borrowing rate requires an estimate when observable interest rates are not available or when they need to be adjusted to reflect the terms of the lease. As most of the lease contracts for office rentals have an original term between 5 and 10 years, the Group determines its incremental borrowing rate based on the cost of its long-term financing at the date of the lease.

3 Summary of Significant Accounting Policies (continued)

Judgments, estimations and assumptions (continued)

Judgments (continued)

Classification of assets as held for sale or investment property

For the initial classification of assets acquired as collaterals on loans, the Group makes judgments related to the classification of these assets either as assets held for sale, investment properties or other assets. The Group form their judgment for the initial recognition of assets based on the objectives for the future utilization and disposal of the acquired assets. In addition to the date of the statement of financial position, the Management reviews its intentions regarding the use and/or realization of these assets and, as a result, reclassification is made between assets for sale and investment properties. (Notes 19 and 21)

Estimations

The main assumptions regarding the future and other key sources of uncertainty at the reporting date, which result in a significant risk for a major adjustment of the carrying amounts of the assets and liabilities within the following financial year, are detailed below.

The Group bases its assumptions and estimates of the existing parameters at the moment of preparation of the consolidated financial statements. The existing circumstances and assumptions for future development may change due to market changes or circumstances beyond the control of the Group. All such changes are recorded in the assumptions, when they occur.

Determination of ECLs for financial assets with low credit risk

Low credit risk instruments are those for which there is a low non-performance risk, the counterparty's ability to perform its contractual obligations in the short run is stable, negative long-term economic conditions are unlikely to change the ability to repay the liabilities due. For its short-term receivables from banks and debt instruments measured at amortized cost or at fair value in OCI, the Group assumes as at the reporting date that the likelihood of default is unlikely and therefore determines 12-month credit losses for them. If the low credit risk criteria are no longer met in the subsequent reporting periods, the Group performs an analysis of the change in credit risk relative to the initial recognition in order to assess the need for a loss allowance over the full period of the instrument. Determining instruments as instruments with low credit risk requires judgment. In making this judgment, the Group uses all reasonable and substantiated information that is available without incurring unnecessary expenses or efforts. (Note 32.2)

Determination of ECLs from loans and advances

As disclosed in Note 32.2 *Credit risk*, the Group has developed a policy to assess changes in credit quality and determine the expected credit losses on financial instruments. The Group classifies its risk assets into three risk stages depending on the changes in credit risk after the initial recognition of the asset and accordingly estimates the expected credit losses based on the 12-month probability of default if there is no change in credit quality (Stage 1) and based on the probability of default over the entire duration of the instrument (Stage 2 and Stage 3), if there is a significant increase in credit risk. In determining the extent to which the credit risk is significantly increased in relation to the initial recognition of an asset, the Group uses all reasonable and substantiated information that is available without incurring unnecessary expenses or efforts.

Loss on default (LGD) is an estimate of the damage that the Group would suffer upon a default event and is based on the difference between the contractual cash flows and the cash flows that the Group expects to receive, including from collateral and other credit facilities. Significant judgment is required to determine the timing and amount of the expected cash flows, including when determining the value of the respective collateral. The Management uses judgments, based on the historical experience, related to losses, with respect to assets, with inherent credit risk and objective circumstances for impairment, similar to those in the portfolio, when calculating the future cash flows.

3 Summary of Significant Accounting Policies (continued)

Judgments, estimations and assumptions (continued)

Estimations (continued)

In determining the amount of expected credit losses, the Group uses estimated information about expected future changes in certain economic conditions and indicators and assumptions how changes in these indicators would affect the probability of default.

The 'Likelihood of default' (PD) parameter is a key factor to calculating the amount of expected credit losses and reflects the likelihood that the counterparty will not implement its contractual obligations over a given time horizon. The Bank has developed internal models for determining the probability of default on loans based primarily on historical information for a period for which it is available. The assessment of the correlation between the historical default rates and the estimated economic indicators is a significant estimate. The Group's historical experience with credit losses and economic forecasts may also not be considered representative of the actual losses in the future.(Note 32.2)

Fair value of financial instruments

When the fair values of the financial assets and liabilities in the statement of financial position cannot be received from the asset markets, these are determined with the help of various evaluation techniques, which include the use of mathematical models. The input data for these models, result from indicators, which are observed on the financial markets, where possible, and otherwise assumptions shall be used to determine the fair value. The assumptions take into consideration factors, related to liquidity, volatility for longer-term derivatives and discount rates, early payments and non-performance provisions, related to securities, secured by assets. (Note 30)

Measurement of the acquired assets from collaterals

The properties, which prior to their acquisition have served as collaterals to loans granted, are classified by the Group as assets held for sale or investment property. According to the accounting policies adopted by the Banк, the assets that are classified as held for sale are subsequently measured at the lower of their carrying amount and their fair value. To determine the fair value of assets for sale, the Group uses estimates by independent external valuators.

Acquired assets that are classified as investment property are subsequently measured at fair value at the reporting date. To determine the fair value of investment properties, the Group uses valuations prepared by independent external valuators with appropriate professional qualifications and necessary experience to evaluate similar real estate.

The appraisers are members of the Chamber of Independent Appraisers in Bulgaria and they have appropriate qualifications and recent experience in the valuation of properties. The valuations, which conform to International Valuation Standards, were arrived at by using the specified in the standard valuation methods and reference to market evidence of transactions or offer prices for similar properties (Note 30).

Assets in process of development

Initially these assets are stated at cost. After initial recognition the assets are measured at the lower of cost and net realizable value. The net realizable value is the estimated salling prise in the ordinary course of business less cost to sell. The assessment of the net realizable value is based on the best evidence available at the date of the valuation. The net realizable value is evaluated at each reporting date. Where the circumstances that led to a decrease in the value of the asset below the acquisition value no longer exist or where there is clear evidence of an increase in the net realizable value due to a change in the economic situation, the amount of the decrease should be reversed.

All amounts are in thousands of EUR unless otherwise stated

4 Net interest income

	2021	2020
Interest income		
Loans and advances to banks	9	85
Loans and advances to customers	25,021	24,009
Debt instruments at FVOCI	352	424
Debt instruments at amortized cost	135	153
Total interest income	**25,517**	**24,671**
Interest expense		
Deposits	(1,371)	(2,119)
Other borrowed funds	(253)	(315)
Lease agreements	(39)	(50)
Other liabilities	-	(85)
Assets*	(1,013)	(582)
Total interest expense	**(2,676)**	**(3,151)**
Interest income, net	**22,841**	**21,520**

**The amount represents interest paid on placements with BNB and other banks.*

The Group recognizes interest income on impaired loans only on the net amount of the exposure after decreasing the accumulated expected credit loss. As part of interest income on loans and advances to customers, the Group has recognised interest income on impaired loans in 2021 in the amount of EUR 2,314 thousand (2020: EUR 2,665 thousand).

5 Fees and Commissions Income, Net

	2021	2020
Fees and commissions income		
Fees and commissions from transactions	4,235	3,269
Deposit accounts	1,346	1,064
Guarantees and letters of credit	216	216
Total fees and commissions income from contract with customers	**5,797**	**4,549**
Loans and advances to customers	446	584
Other services	67	62
Total fees and commissions income	**6,310**	**5,195**
Fees and commissions expense		
Bank cards	(257)	(188)
Payment and other services	(77)	(73)
Total fees and commissions expense	**(334)**	**(261)**
Fees and commissions income, net	**5,976**	**4,934**

As part of Payment and other services, the Group has realized income from fees on fiduciary activity in 2021 in the amount of EUR 4 thousand (2020: EUR 15 thousand).

All amounts are in thousands of EUR unless otherwise stated

6 Net exchange rate differences

Gains and losses, resulting from the revaluation of monetary assets and liabilities denominated in foreign currency are presented net in profit or loss for the year. In 2021, the realized gain on revaluation of assets and liabilities denominated in foreign currency is EUR 145 thousand. (2020: loss of EUR 55 thousand).

7 Gains on financial assets at fair value through profit or loss

The reported gain on financial assets at FV through profit or loss in 2021 in the amount of EUR 150 thousands represents the net change in fair value of the investment in shares of Visa Inc. (2020: gain of EUR 415 thousands)

8 Other operating income and expense

Other operating income	**2021**	**2020**
Gains from sale of goods and non-financial sevices	1,228	944
Rental income from investment properties	190	179
Rental income from assets held for sale	144	51
Gains on disposal of assets held for sale	50	51
Fair value changes of investment properties	31	-
Gain recignised on termination of a finance lease contract	-	587
Gains on disposal of investment properties	-	33
Miscellaneous other	71	66
Other operating income	**1,714**	**1,911**

Other operating expense	**2021**	**2020**
Direct administrative expenses arising from investment properties	(638)	(535)
Direct administrative expenses arising from assets held for sale	(259)	(103)
Loss on disposal of investment properties	(162)	-
Provision expense for law case liabilty	(131)	(232)
Direct administrative expenses arising from assets under development	(23)	-
Miscellaneous other	(20)	-
Loss on disposal of other assets	-	(6)
Fair value changes of investment properties	-	(1)
Other operating expense	**(1,233)**	**(877)**

All amounts are in thousands of EUR unless otherwise stated

9 Administrative expenses

	2021	2020
Professional services	2,710	2,400
Equipment maintenance	1,738	1,480
Marketing	392	249
Overhead costs	282	257
Rent	220	195
Audit costs*	183	129
Deposit insurance Fund and Banks Restructuring Fund contributions	1,580	2,969
Miscellaneous other**	677	632
Administrative expenses	**7,782**	**8,311**

** For 2021 the amount includes EUR 177 thousand expenses for independent financial audit (2020:123 thousand) and EUR 6 thousand (2020:6 thousand) other fees, not related to the financial audit.*
*** Miscellaneous expenses include membership fees, office supplies, travel and related expense, local taxes and similar other.*

10 Impairment on Financial Assets

The following tables provide information on the ECL charges on financial asset for 2021 and 2020 respectively:

2021	Stage 1		Stage 2		Stage 3		
	Individual	Collective	Individual	Collective	Individual	Collective	TOTAL
Loans and advances to banks	(29)	-	-	-		-	(29)
Loans and advances to customers	114	725	79	146	2,490	832	4,386
Debt instruments at FVOCI	20	-	-	-		-	20
Debt instruments at amortised cost	31	-	-	-		-	31
Other financial assets	-	(3)	30	-	24	-	51
Financial guaranties	4	2	-	-	(62)	-	(56)
Total	**140**	**724**	**109**	**146**	**2,452**	**832**	**4,403**

2020	Stage 1		Stage 2		Stage 3		
	Individual	Collective	Individual	Collective	Individual	Collective	TOTAL
Loans and advances to banks	(9)	-	-	-		-	(9)
Loans and advances to customers	1,114	650	(76)	413	1,737	971	4,809
Debt instruments at FVOCI	(56)	-	-	-		-	(56)
Debt instruments at amortised cost	(22)	-	-	-		-	(22)
Other financial assets	-	(9)	18	-	51	-	60
Financial guaranties	1	0	-	-	62	-	63
Total	**1,028**	**641**	**(58)**	**413**	**1,850**	**971**	**4,845**

In 2021, the 'Impairment of financial assets' item in the statement of comprehensive income includes the recognized effect on modification of loans and advances of EUR 856 thousand5 (2020: EUR 293 thousands) as well as the net amount of direct write-offs: gain of EUR 19 thousand (2020: gain of EUR 20 thousands).

All amounts are in thousands of EUR unless otherwise stated

11 Taxes

	2021	2020
Current tax expense	(1,012)	(812)
Deferred tax (expense) / income	(29)	26
Tax expense	**(1,041)**	**(786)**

Corporate tax on profit

The Bank and its consolidated subsidiaries are subject to income tax (tax on profit) pursuant to the Corporate Income Tax Act. Tax rate applicable to the taxable profit of the Bank for 2021 is 10% (2020: 10%).

Tax returns are subject to audit by the tax authorities and the limitation period for verification is five years after submission of the tax return. The tax assessment notice, which finalizes an appointed tax audit for a certain period, under certain circumstances, could be reviewed within another 5 years after the year of issue. There were no tax audits in 2021 for the Group.

Effective tax rate

The following table presents a calculation of the expected tax on profit compared to the real one:

	2021	2020
Profit before tax	10,282	7,802
Tax rate	10.00%	10.00%
Tax according to tax rate	**(1,028)**	**(780)**
Tax unrecognized (expense)/income	(2)	(14)
Unrecognized deferred tax asset on losses	-	1
Other tax differences	(11)	7
Tax expense	**(1,041)**	**(786)**
Effective tax rate	10.13%	10.08%

Deferred taxes

Deferred taxes are calculated using the balance sheet method on all temporary differences at the effective tax rate of 10% (2020: 10%).

All amounts are in thousands of EUR unless otherwise stated

11 Taxes (continued)

Deferred taxes (continued)

The movement on the deferred tax assets and liabilities is as follows:

	2021	2020
Deferred tax (liabilities) net at the beginning of the year	(64)	(90)
Deferred tax (expense) / income	(29)	26
Deferred tax (liabilities) net at the end of the year	**(93)**	**(64)**

Deferred tax assets and liabilities are attributable to the following items in the statement of financial position:

	2021	2020
Deferred tax assets		
Investment properties	111	148
Assets held for sale	35	23
Other temporary differences	52	54
Total deferred tax assets	198	225
Deferred tax liabilities		
Fixed tangible and intangible assets	(30)	(28)
Property revaluation	(261)	(261)
Total deferred tax liabilities	(291)	(289)
Deferred tax (liabilities), net	**(93)**	**(64)**

The change in deferred tax for the year is related to the following items:

	2021	2020
Revaluation of investment properties to fair value	(37)	2
Impairment of assets held for sale	12	(1)
Accelerated tax depreciation	(2)	(5)
Other temporary differences	(2)	30
Deferred tax (expense) / income	**(29)**	**26**

12 Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group's shareholders by the weighted average number of ordinary shares in issue during the period. In calculating diluted earnings per share, the effect of all potential ordinary shares dilutive should be taken into account. For BACB, the income per diluted share is equal to basic earnings per share due to the fact that there are no potential ordinary shares dilutive. The Bank has decided to disclose earning per share in the Separate Financial Statements prepared by the Management Board and approved by the Supervisory Board on 15 March 2022.

All amounts are in thousands of EUR unless otherwise stated

13 Cash on hand and balances with the Central Bank

13.1. Cash and balances with the Central Bank

	2021	2020
Cash on hand	6,088	5,241
Balances with the Central Bank	231,971	199,469
Cash and balances with the Central Bank	**238,059**	**204,710**

The balances with the Central Bank include the minimum required reserve (MRR), amounting to EUR 87,293 thousands and EUR 66,299 thousands as of 31 December 2021 and 31 December 2020, respectively. The minimum required reserve is calculated as a percentage of borrowed funds, with the exception of those borrowed from local banks, and no interest is charged thereon. MRR is measured on a monthly basis and daily fluctuations are allowed. The funds in accounts with BNB ensuring compliance with the MRR requirements are available for use by the Bank in its daily operations and therefore are not reported as encumbered assets. As of 31 December 2021 the amount of the minimum reserve was 5% on borrowed funds from foreign customers and counterparties and 10% on all other borrowed funds. As of 31 December 2021 the balances with the Central Bank include the amount of EUR 1,499 thousand (2020: EUR 1,837 thousand) representing BACB's participation in a new Guarantee Mechanism of a system processing card-based payment transactions – BORICA.

13.2. Cash and cash equivalents reported in the consolidated statement of cash flows

For consolidated statement of cash flows purposes, cash and cash equivalents include cash on hand and balances with the Central Bank and loans and advances to banks with maturity up to 3 months, as follows:

	2021	2020
Cash and balances with the Central Bank	238,059	204,710
Loans and advances to banks with maturity up to 3 months	85,869	28,112
Funds restricted as collateral	(4,097)	(1,544)
Cash and cash equivalents	**319,831**	**231,278**

The funds restricted in accounts with other banks, secure the financial commitments made by the Group for guarantees and letters of credit, as well as payments to card operators. The amounts, securing payments to card operators, are determined based on the volume of transactions in a certain period of time and these have the nature of guarantees, which can be used to cover payments made, in case of non-performance by the Group.

14 Loans and advances to banks

Loans and advances to banks represent current accounts and short-term deposits with original maturity up to three months with local banks and foreign correspondent banks. For the purposes of consolidated statement of cash flows, the balances on these accounts are included as cash equivalents, excluding amounts in accounts restricted as guarantee.

	2021	2020
Current accounts with other banks	2,956	5,379
Deposits with other banks	78,816	21,189
Restricted funds on the accounts	4,097	1,544
Loans and advances to banks	**85,869**	**28,112**
Less: ECL allowance	(2)	(30)
Loans and advances to banks, net	**85,867**	**28,082**

All amounts are in thousands of EUR unless otherwise stated

15 Loans and advances to customers

	2021	2020
Loans and advances to customers	671,809	630,650
Less: ECL allowance	(34,365)	(43,584)
Loans and advances to customers, net	**637,444**	**587,066**

Loan segmentation by customer

Type of Customer	2021	2020
Individuals	145,120	106,890
Businesses	526,689	523,760
Loans and advances to customers	**671,809**	**630,650**
Less: ECL collective	(4,317)	(3,444)
Less: ECL individual	(30,048)	(40,140)
Loans and advances to customers, net	**637,444**	**587,066**

Industry Sector	2021		2020	
	Loan portfolio, Gross, before ECL allowance	Loan portfolio, Net	Loan portfolio, Gross, before ECL allowance	Loan portfolio, Net
Real estate construction	77,633	66,486	64,943	49,968
Hotels	60,880	59,139	62,258	60,916
Wholesale distribution	59,857	58,789	58,397	56,357
Primary agriculture and farming	38,382	37,708	41,714	40,548
Electricity production	36,276	36,178	38,689	38,568
Transportation	35,595	35,048	39,899	39,334
Furniture and wood products	25,017	21,834	25,695	21,802
Food processing	24,589	24,021	24,170	24,042
Real estate investment&Land development	23,004	17,637	15,109	8,970
Chemical industry	21,058	21,033	20,346	20,279
Financial services	17,981	17,725	12,138	11,777
Waste collection and recicling	15,204	15,204	16,862	16,862
Retail	13,350	13,243	11,527	11,013
IT services	12,395	12,392	15,443	15,438
Production of metal products and equipment	11,408	11,352	7,414	7,413
Entertainment and Recreation	8,958	8,431	9,160	8,684
Light industry	7,857	5,657	8,015	5,210
Professional and other services	7,396	7,365	11,761	11,064
Mortgage loans - commercial	4,773	3,593	8,741	5,354
Other	25,077	23,963	31,478	30,044
Exposures to corporate customers	**526,690**	**496,798**	**523,759**	**483,643**
Mortgage loans to individuals	107,169	106,833	75,324	74,964
Consumer loans to individuals	37,950	33,813	31,567	28,459
Loans and advances to customers	**671,809**	**637,444**	**630,650**	**587,066**

All amounts are in thousands of EUR unless otherwise stated

15 Loans and advances to customers (continued)

Loan segmentation by customer (continued)

The reporting period shows an improved portfolio diversification as a result of the highly activity in retail segment and moderate increase in SME sector including the decrease of the exposures to industry sectors as Agriculture, Transportation, Hotels and Electricity production. As at 31 December 2021, the exposures to most cyclical sectors (construction, hotels, real estate transactions) remain at the previous year level - 24% of the gross loan portfolio, compared to 22,6% an year ago. In line with the outlined policy, retail segment expansion has also been achieved. At the end of 2021 the volume of consumer and housing loans to individuals increased to 21.6% of the gross loan portfolio, compared to 16.8% an year earlier.

Loans and advances to customers include finance lease receivable in the total carrying amount of EUR 10,599 thousand as of 31 December 2021 (2020: EUR 11,860 thousand).

As at 31 December 2021, there are no expected credit losses recognized on lease receivables (2020: 0).

The tables below contain information, regarding the lease receivables, as of 31 December 2021 and 2020.

2021	Up to 1 year	1 to 5 years	Over 5 years	Total
Gross investment in finance leases	2,537	8,338	997	11,872
Unearned future income on finance lease	(397)	(836)	(40)	(1,273)
Net minimum lease payments	**2,140**	**7,502**	**957**	**10,599**

2020	Up to 1 year	1 to 5 years	Over 5 years	Total
Gross investment in finance leases	2,205	9,020	2,334	13,559
Unearned future income on finance lease	(471)	(1,147)	(81)	(1,699)
Net minimum lease payments	**1,734**	**7,873**	**2,253**	**11,860**

Information, regarding the effective interest rate on financial instruments as of 31 December 2021 and 31 December 2020 is included in note 32.3.2 Interest rate risk.

All amounts are in thousands of EUR unless otherwise stated

16 Financial assets at fair value through profit or loss

This item presents the Group's investment in shares of Visa Inc. This investment is measured at fair value reflecting the fair value changes in profit or loss for the period.

The Group acquired these shares as a result of BACB's membership in VISA Europe, which has been sold to VISA Inc. In 2016, the process of selling 100% of the share capital of VISA Europe to VISA Inc. was finalized, with each member of VISA Europe receiving a corresponding proportional consideration. According to covenants of the final transaction, the consideration for the members of Visa Europe comprises three components – closing cash consideration, deferred cash consideration to be paid after the third year following the closing date and a pre-defined number of Visa Inc convertible Class C preferred shares. The acquired Series C preferred shares are subject to mandatory conversion into Class A ordinary shares /or Series A preferred shares, where applicable/ within a 12-year period at a certain ratio which is subject to review and adjustment over time under certain conditions. The newly issued Class A or Series A shares are not subject to restrictions and can be freely transferred. The first conversion was made in September 2020 and as a result the Group received 38 newly issued Series A preferred shares, which were realized in 2021 through a sale.

The model for determination of the fair value of the Class C convertible preferred shares of Visa Inc. is based on the information about the indicative conversion ratio to the Class A ordinary shares of Visa Inc., information about the quoted market value of the Class A ordinary shares and takes into account the lack of liquidity due to the restrictions for selling the investment within a 12-year period after closing the transaction.

The model for measuring the fair value of Series A preferred shares of Visa Inc. is based on a fixed conversion ratio to the Class A ordinary shares of Visa Inc. and information about the quoted market value of the Class A ordinary shares. Unlike Class C shares, the Series A shares are not subject to a trading restrictions, therefore the model does not include a discount for lack of liquidity.

The change in the fair value of the investment for the current year is recognized in profit or loss and is presented in the item “Net gain on financial assets at fair value tgrough profit or loss” of the Statement of Comprehensive Income.

The fair value of the investment in VISA Inc. as of 31 December 2021 and 31 December 2020 is presented bellow:

	2021	**2020**
Visa Inc convertible preferred stocks class C	515	342
Visa Inc preferred stocks class A	-	676
Total	**515**	**1,018**

All amounts are in thousands of EUR unless otherwise stated

17 Financial instruments at FVOCI

During the reporting period, the Group manages its investments in Bulgarian bonds, as a part of the management of its liquid assets.

As of 31 December 2021 and 31 December 2020, the carrying amount of the investments measured at fair value in OCI is as follows:

	2021	2020
Debt instruments at FVOCI		
EUR Bulgarian Government Bonds	19,165	11,804
BGN Bulgarian Government Bonds	14,078	12,810
EUR Corporate Bonds	4,147	4,010
BGN Corporate Bonds	1,030	-
Debt instruments at FVOCI	**38,420**	**28,624**

Including collateral for attracted funds from the state budget	2021	2020
EUR Bulgarian Government Bonds	*3,369*	*1,878*
BGN Bulgarian Government Bonds	*2,634*	*7,546*
Total pledged as collateral	***6,003***	***9,424***

As stated in the table above, as at 31 December 2021, debt instruments with a carrying amount of EUR 6,003 thousand, measured at fair value in OCI (2020: EUR 9,424 thousand) are pledged in connection with the statutory requirement for banks to secure government bonds with the funds attracted on budget accounts.

The fair value of both Bulgarian government bonds and corporate bonds is determined on the basis of quoted market prices on active markets at the reporting date.

As at 31 December 2021, BACB also reports equity investments at fair value in OCI of EUR 2,093 thousand (2020: EUR 1,762 thousand), as follows:

	2021	2020
Shares in Bulgarian payment services companies	1,500	1,500
Investment in shares of TIXI AD	500	-
Shares of a special investment company	-	212
BSE Shares	93	50
Total	**2,093**	**1,762**

Determination of the fair value of investments in equity securities is based on valuation models using direct and indirect market information.

For the valuation of the investment in shares on the BSE, quotations from active market are used at the reporting date.

In 2021, the Group's investment in equity securities of a special investment company was realized through a market sale. The accumulated negative revaluation reserve on this investment in the amount of EUR 118 thousand net of tax, is transferred to "Reserves and retained earnings" upon derecognition of the asset.

A valuation model has been used to assess the investment in equity securities of two Bulgarian companies, providing payment services, as there are no active market data for the securities. More information on the model applied, is presented in Note 30 of these financial statements.

The levels of the inputs into the valuation techniques applied with respect to financial assets at FVOCI as per the Fair value hierarchy defined by IFRS 13 are disclosed in Note 30.

All amounts are in thousands of EUR unless otherwise stated

18 Debt instruments at amortized cost

As of 31 December 2021 the Group reports a portfolio of debt instruments at amortized cost in the amount of EUR 19,314 thousand (2020: EUR 19,314 thousand), as follows:

	2021	2020
Debt instruments at amortised cost		
EUR Bulgarian Government Bonds	22,729	10,098
EUR Foreign Government Bonds	1,039	1,077
USD Foreign Government Bonds	13,297	8,148
Debt instruments at amortised cost	**37,065**	**19,323**
Less: ECL allowens	(41)	(9)
Debt instruments at amortised cost, net	**37,024**	**19,314**

As at 31 December 2021 the Bulgarian Government bonds of EUR 9,963 thousand (2020: EUR 10,098 thousand) are fully pledged as collateral for attracted funds from the state budget counterparties.

19 Investment properties

Fair Value	Buildings	Buildings under construction	Land	Total
31 December 2019	**24,476**	**11,088**	**16,129**	**51,693**
Additions in 2020	15	-	-	15
Reclassified from finance leasing	2,698	-	-	2,698
Classified as assets under development	-	-	(2,219)	(2,219)
Disposals 2020	(1,341)	-	(328)	(1,669)
Change in fair value	(95)	99	(5)	(1)
31 December 2020	**25,753**	**11,187**	**13,577**	**50,517**
Additions in 2021	5,000	-	-	5,000
Reclassified from assets held for sale	455	-	429	884
Disposals 2021	(2,396)	(169)	(929)	(3,494)
Change in fair value	143	(68)	(44)	31
31 December 2021	**28,955**	**10,950**	**13,033**	**52,938**

The acquisition of investment properties in the amount of EUR 5,000 thousand was settled against direct reduction of loan portfolio and did no required any cash otflows. Investment properties are presented in the statement of financial position at fair value. As of 31 December 2021, the fair value of the investment properties has been obtained on the basis of valuations, carried out by independent external appraisers. The appraisers are members of the Chamber of Independent Appraisers in Bulgaria and they have appropriate qualifications and recent experience in the valuation of properties. The valuations, which conform to International Valuation Standards, were arrived at by using the specified in the standard valuation methods and reference to market evidence of transactions or offer prices for similar properties (Note 30).

All amounts are in thousands of EUR unless otherwise stated

20 Tangible, intangible assets and right-of-use assets

	Land and buildings revalued	Right-of-use assets	Other Tangibles	Assets under development	Intangibles	Total
Cost or valuation						
1 January 2020	4,117	4,034	4,228	302	1,798	14,479
Additions in 2020	-	793	335	10	308	1,446
Disposals in 2020	-	(91)	(142)	-	(13)	(246)
31 December 2020	**4,117**	**4,736**	**4,421**	**312**	**2,093**	**15,679**
Additions in 2021	-	2,615	87	17	157	2,876
Disposals in 2021	-	(1,499)	(217)	-	(18)	(1,734)
31 December 2021	**4,117**	**5,852**	**4,291**	**329**	**2,232**	**16,821**
Accumulated Depreciation and impairment						
1 January 2020	90	1,022	2,788	-	1,316	5,216
Charge for 2020	134	1,113	414	-	205	1,866
Disposals 2020	-	(42)	(134)	-	(13)	(189)
31 December 2020	**224**	**2,093**	**3,068**	**-**	**1,508**	**6,893**
Charge for 2021	134	1,115	400	-	217	1,866
Disposals 2021	-	(1,499)	(214)	-	(18)	(1,731)
31 December 2021	**358**	**1,709**	**3,254**	**-**	**1,707**	**7,028**
Net book value						
31 December 2020	**3,893**	**2,643**	**1,354**	**312**	**585**	**8,786**
31 December 2021	**3,759**	**4,143**	**1,038**	**329**	**525**	**9,794**

The office buildings and their adjacent areas are presented in the statement of financial position at revalued amount, and all other assets – at cost less the accumulated depreciation and impairment.

As of 31 December 2021, the Group has fully depreciated assets, which are still used in its operations, amounting to EUR 3,423 thousand (2020: EUR 3,128 thousand).

All amounts are in thousands of EUR unless otherwise stated

21 Assets held for sale

Balance at 31 December 2019	**3,707**
Additions in 2020	7,668
Disposals in 2020	(676)
Balance at 31 December 2020	**10,699**
Transferred to investment properties	(884)
Additions in 2021	378
Disposals in 2021	(1,129)
Impairment in 2021	(124)
Balance at 31 December 2021	**8,940**

The fair value of properties classified as assets held for sale at 31 December 2021 is valued at EUR 8,984 thousand (2020: EUR 10,753 thousand). The fair value has been arrived on the basis of valuations, carried out by external independent appraisers. The appraisers are members of the Chamber of Independent Appraisers in Bulgaria and they have appropriate qualifications and recent experience in the valuation of properties. The valuations are obtained using the methods and references specified in the International Valuation Standards for market certificates from transactions or bid prices of similar properties. (Note 30)

During the year the Group acquired new assets classified as held for sale, amounting to a total of EUR 378 thousand, of which assets in the amount of EUR 365 thousand (2020: EUR 7,432 thousand) were settled against direct reduction of loan portfolio.

22 Investments in companies of the Group and joint ventures

Companies of the Group consolidated in full in the present financial statements

These financial statements are prepared by the Bank and the Group companies which are subsidiaries and are fully consolidated. As of 31 December 2021, the Bank has two subsidiaries - BACB Finance EAD and BACB Trade EAD, which it fully owns.

BACB Finance EAD is a subsidiary providing financial services and has supporting functions for the Bank. Through this subsidiary BACB carries out leasing transactions, as well as commercial and consumer lending transactions, using the company's own funds for this purpose and, if necessary, funding from the Bank. In 2015 BACB Finance EAD was registered as a financial institution under the requirements of BNB Regulation #26.

BACB Trade EAD is 100% owned by BACB. The company was incorporated in 2013 with subject of activity financial-consulting and trade-consulting activity.

On 17 December 2021 the process of voluntary liquidation of the subsidiary Paytech EOOD was successfully completed. This entity was a limited liability company 100% owned by BACB and was registered in 2019 with a subject of activity: development, maintenance and software management activities; purchase and sale of software products and provisions of technical support for payment services, as well as any other consultant services and trading activities. As of 31 December 2020 the management has reconsidered the project for providing additional payment services through the subsidiary Paytech EOOD and decided not to develop the project further and thus to start a procedure for liquidation of this company. After the fulfillment of all legal requirements, the procedure for voluntary liquidation has been closed and on 17 December 2021 Paytech EOOD has been written off the Trade register.

All amounts are in thousands of EUR unless otherwise stated

22 Investments in subsidiaries and joint ventures (continued)

Joint ventures

The Group considers as a joint vnture its investment in “IDS Fund” AD, an investment fund established in 2019 with main purpose to support companies with good business ideas that strive to realize their full potential on the market. The Fund provides support in the form of debt financing instruments, guarantees, standard financing, share acquisition with buyback options, etc. The shareholders - founders of the Fund are the BACB’s subsidiary BACB Finance EAD and CSIF AD - the largest shareholder in BACB, holding 50% of the registered capita each. As of 31 December 2021 the registered and paid-in capital of IDS Fund is BGN 1 million, divided in one million registered and indivisible voting shares at a nominal value of BGN 1 each. After analysis, the Group has designated the investment as a joint venture and presents it in its consolidated financial statements using the equity method. The investment is initially measured at cost and subsequently adjusted for the post-acquisition changes in the investor’s share of the investee’s net assets. In August 2019 IDS Fund made its first financial investment acquiring 75% of the share capital of ORK Consult LTD with core activity - food trading. ORK Consult Ltd is a subsidiary and is consolidated by IDS Fund. At the end of March 2020 IDS Fund acquired 35% of the share capital of another entity – Vital Concept Ltd and subsequently, in September, increased its share to 44%. IDS Fund considers the company Vital Concept Ltd, whose main activity is production and distribution of food supplements, as an associate and presents this investment under the equity method in its consolidated financial statements.

As of 31 December 2021, IDS Fund prepared consolidated financial statements for the purpose of the consolidated statements of the Group. Summarized financial information of IDS Fund AD as at 31 December 2021 is presented in the following tables:

Summarised statement of financial position

	2021	2020
Non-current assets	*255*	*276*
Current assets	*175*	*36*
Goodwill	*87*	*87*
Non-current liabilities	*(164)*	*-*
Current liabilities	*(85)*	*(21)*
Equity attributable to controlling interest	*275*	*371*
Equity attributable to non-controlling interest	*(7)*	*7*
Group's carrying amount of the investment in joined venture - 50%	137.5	185.5

Summarised statement of comprehensive income

	2021	2020
Revenue from contracts with customers	174	220
Cost of sales	(127)	(154)
Administrative expenses	(129)	(166)
Depreciation	(9)	(7)
Financial costs	(4)	(9)
Share of (loss) of associate	(14)	(14)
Loss for the year	(109)	(130)
Attributable to:		
Equity holders of the parent	(95)	(107)
Non-controlling interest	(14)	(23)
Group's share of loss for the year	(47.5)	(54)

All amounts are in thousands of EUR unless otherwise stated

23 Other assets

	2021	2020
Assets for sale under development*	3,141	6,385
Inventories (held by subsidiary)	7,114	5,159
Deferred expenses	598	595
Advance payments	1,151	341
Accounts on bank transfers	1,104	89
Receivables under rental agreements	193	195
Other accounts and receivables	277	234
Receivables on sale of properties**	396	2,031
Total other assets	13,974	15,029
Expected credit losses on receivables	(141)	(90)
Other assets, net	**13,833**	**14,939**

** The Group concluded contracts for granting the right to build on plots owned by it in Sofia for consideration consisting of construction of residential and commercial premises by the contractor, which BACB intends to realize through a subsequent sale. In this regard the real estate with established right of construction have been reclassified from investment properties as assets under development.*

*** The position presents receivables arising at the end of 2021 with a due date up to 3 months.*

24 Deposits from customers

The tables below represent distribution of deposits from customers as of 31 December 2021 and 2020 :

	2021			2020		
By type of currency	Demand deposits	Term deposits	Total deposits	Demand deposits	Term deposits	Total deposits
BGN	451,733	125,712	577,445	298,712	124,439	423,151
EUR	142,060	178,379	320,439	112,128	214,727	326,855
USD	36,635	41,185	77,820	24,379	39,627	64,006
GBP	57	54	111	683	847	1,530
Total	**630,485**	**345,330**	**975,815**	**435,902**	**379,640**	**815,542**

	2021			2020		
By type of customer	Demand deposits	Term deposits	Total deposits	Demand deposits	Term deposits	Total deposits
Non-bank financial institutions	27,126	7,680	34,806	24,926	6,562	31,488
Corporate	499,730	42,460	542,190	361,591	64,358	425,949
Individuals	103,629	295,190	398,819	49,385	308,720	358,105
Total	**630,485**	**345,330**	**975,815**	**435,902**	**379,640**	**815,542**

At 31 December 2021 Deposits from customers include EUR 26,141 thousand (2020: EUR 19,796 thousand) deposits from related parties (Note 31).Information on the effective interest rate applicable to monetary financial instruments as at 31 December 2021 and 31 December 2020 is included in Note 32.3.2 Interest rate risk.

All amounts are in thousands of EUR unless otherwise stated

25 Other borrowings

The amounts payable under agreements for short-term or long-term financing that are not deposits from customers are presented in the statement of financial position as Other borrowed funds.

In July 2015 the Group signed an agreement with the Bulgarian Development Bank (BDB) for participation in its partnership program for indirect financing of micro, small and medium-sized companies. The program is developed to provide low-interest rate financing to Bulgarian companies and support the business in creating new jobs and investing in regions with high unemployment. According to the agreement BDB will provide to the Group up to EUR 17.9 million credit line for financing of eligible projects under the program. In November 2018, BACB signed a new agreement with BDB, which is the first agreement of the BDB under the COSME+ program to support small and medium-sized businesses in the country. The COSME+ program is supported by the European Fund for Strategic Investments for indirect financing of SMEs with guarantee facility and counter-guarantee. The objective of the program is to provide easy access to finance for SMEs across the different stages of their life cycle: establishment, expansion or transfer of business. With the COSME+ guaranteed resource provided by BDB, BACB provides investment and working capital loans and bank guarantees. Under the agreement, the Group received funding of EUR 10 million over a 10-year period.

As of 31 December 2021 the long-term borrowed funds amount to EUR 16,136 thousand (2020: EUR 19,496 thousand) including interest and represent amounts due to BDB under the loan agreement as described.

The following tables summarize the reconciliation between the opening and closing balances in the statement of financial position for other borrowed funds as part of the liabilities arising from financing activities:

2021

	1 January 2021	Cash inflows	Interests paid	Cash outflows	Effective interest rate accruals	31 December 2021
Other borrowings	19,496	-	(253)	(3,360)	253	**16,136**
Total liabilities from financing activity	**19,496**	**-**	**(253)**	**(3,360)**	**253**	**16,136**

2020

	1 January 2020	Cash inflows	Interests paid	Cash outflows	Effective interest rate accruals	31 December 2020
Other borrowings	21,606	-	(315)	(2,110)	315	**19,496**
Total liabilities from financing activity	**21,606**	**-**	**(315)**	**(2,110)**	**315**	**19,496**

All amounts are in thousands of EUR unless otherwise stated

26 Other liabilities

As of 31 December 2021 and 31 December 2020 the other liabilities include:

	2021	2020
Accounts on bank transfers	2,076	4,101
Payables under lease agreements	4,181	2,683
Amounts due to suppliers and advances received	1,589	2,200
Payables to staff	445	300
Payables to BRF	217	-
Provisions for liabilities	55	232
VAT payables	45	96
ECL for guarantees	9	66
Taxes payable, excluding income tax	50	59
Other accounts and payables**	5,806	1,572
Total other liabilities	**14,473**	**11,309**

** The position includes liabilities under NGF agreement of EUR 1,268 thousand and other restricted funds in escrow accounts for EUR 4,331 thousand*

The following table summarizes the reconciliation between the opening and closing balances for lease liabilities funds as part of the liabilities arising from financing activities:

	2021	2020
As at 1 January 2021	2,683	3,045
New recognised	2,615	793
Interest accrued	39	50
Payments	(1,156)	(1,156)
Terminated agreements	-	(49)
As at 31 December 2021	**4,181**	**2,683**

The total cash outflows in 2021 for leases is in the amount of EUR 1,156 thousands. The maturity analysis of lease liabilities are disclosed in Note 32.4.

Amounts recognized in profit or loss for the year, related to the operating lease liabilities.

	2021	2020
Depreciation expense on right-of-use assets (Note 20)	1,115	1,113
Interest expense on lease liabilities (Note 4)	39	50
Total amount recognized in profit or loss	**1,154**	**1,163**

27 Share capital and reserves

All amounts are in thousands of EUR unless otherwise stated

As at 31 December 2021 and 31 December 2020 the BACB's share capital amounts to BGN 24,691 (EUR 12,624) thousand, comprising respectively of 24,691,313 ordinary dematerialized voting shares, with a face value of BGN 1 each. Since 2006 BACB is a public company and its shares are listed on the Bulgarian Stock Exchange – Sofia. Shareholding in the Bank is divided between a varying number of local and foreign investors.

During the period the BACB's main shareholder CSIF AD has decreased its shareholdings to 45.68% of the Bank's registered capital as a result of several transactions. The main part of the sold shares - 9.98% were transferred to Ms. Tsvetelina Borislavova – Karagyozova. The changes in the shareholding structure of BACB are part of the management strategy of Ms. Borislavova and CSIF AD (controlled by Mrs. Borislavova) with respect to her investments and the shareholdings of the group of CSIF AD.

The Bank's shareholding structure as at 31 December 2021 and 31 December 2020 is as follows:

Shareholder	2021	%	2020	%
CSIF, Bulgaria	11,277,473	45.68%	15,199,133	61.56%
LTBI HOLDINGS LLC, USA	8,822,068	35.73%	8,816,618	35.71%
Mrs.Tzvetelina Borislavova-Karagyozova	2,465,000	9.98%	-	-
Other	2,126,772	8.61%	675,562	2.73%
Total	**24,691,313**	**100.00%**	**24,691,313**	**100.00%**

Share premium

As of 31 December 2021 and 31 December 2020, there are no movements in the share premium reserve in the amount of EUR 18,944 thousand, representing the difference between the nominal value of the shares issued and their price.

Reserves

According to the legislation in force in Bulgaria companies should allocate at least 10% of the net profit in the "Reserve Fund", until this reserve represents 10% of the company's registered capital. The law does not allow the entities to pay dividends before making contributions to the Reserve Fund. In case of decrease under the statutory minimum levels, the Group is required to restore the reserves within two years. As a result of significant profits in previous years and conservative dividends policy the Group has historically maintained a Reserve Fund in excess of the minimum levels required by law. As of 31 December 2021 and 31 December 2020, the reserves of the Group include:

	2021	2020
Reserve Fund	130,925	124,027
Accumulated loss from previous years	(53,399)	(53,399)
Impact of adopting IFRS 9	(2,644)	(2,644)
Other reserves	74,882	67,984
Current year profit	9,241	7,016
Retained earnings and other reserves	**84,123**	**75,000**

All amounts are in thousands of EUR unless otherwise stated

27 Share capital and reserves (continued)

As of 31 December 2021 and 31 December 2020, the revaluation reserve of the Group consists of:

Revaluation reserve	**2021**	**2020**
Reserve on real estate owned by the Bank	2,614	2,614
Tax effect	*(261)*	*(261)*
Reserve on equity instruments at FVOCI	90	(103)
Tax effect	*(9)*	*10*
Reserve on debt instruments at FVOCI	84	252
Tax effect	(8)	(25)
ECL on debt instruments at FVOCI	44	24
Total	**2,554**	**2,511**

28 Contingent liabilities and commitments

The Group is counterparty to bank guarantees and letters of credit and other off-balance sheet commitments, as part of its customer service. Those instruments involve, to various degrees, elements of credit and interest-rate risk. At 31 December 2021 and 31 December 2020 the commitments of the Group are as follows:

	2021	**2020**
Unutilized commitments on loans	53,250	34,626
Bank guarantees	11,329	10,304
L/C issued	4,267	15
Total	**68,846**	**44,945**

29 Litigations

As at 31 December 2021 and 31 December 2020, no significant lawsuits have been filed against BACB or its subsidiaries that could have significant consequences for the Group and/or its financial position. In the consolidated financial statements for the year ended 31 December 2020, the Group has recognised provisions in the amount of EUR 232 thousands, related to a civil case against BACB. In 2021 due to a court decision partially to uphold the claim, the Group had to made a payment for the amount of the accrued provisions. There is a high probability for the Group to be required to pay additional cash amount under this claim, in case of non-admission of cassation appeal. Therefore, in these consolidated financial statements, provisions for possible additional liabilities related to this litigation in the amount of EUR 55 thousand are recognized as disclosed in Note 26.

All amounts are in thousands of EUR unless otherwise stated

30 Fair value information

IFRS 7 "Financial Instruments: Disclosures" provides for the disclosure in the notes to the financial statements of information about the fair value estimated in accordance with IFRS 13 *"Fair value measurement"* of the financial assets and liabilities. The Group determines the fair value of its financial instruments based on available market information or using appropriate valuation techniques if such information is not available.

The following table summarizes information about the carrying amount and fair value of financial assets and liabilities.

	Carrying Amount		Fair Value	
Financial assets	**2021**	**2020**	**2021**	**2020**
Loans and advances to banks	85,867	28,082	85,867	28,082
Loans and advances to customers	637,444	587,066	627,752	583,737
Financial assets at FV through profit or loss	515	1,018	515	1,018
Financial assets at FVOCI	40,513	30,386	40,513	30,386
Debt instruments at amortised cost	37,024	19,314	37,111	20,284
Other financial assets	1,829	2,459	1,829	2,459
Financial liabilities				
Demand deposits from banks & customers	630,580	435,902	630,580	435,902
Term deposits from customers	345,330	379,640	345,544	380,117
Other borrowed funds	16,136	19,496	16,136	19,496
Other financial liabilities	8,099	8,656	8,099	8,656
Off balance sheet positions	Nominal	value	Fair	value
Unutilized commitments on loans	53,250	34,626	53,250	34,626
Bank guarantees and L/C issued	15,596	10,319	27	13

Management has estimated that the fair value of cash and balances with BNB and deposits from banks, is not materially different from their carrying amount. The fair value of floating rate loans approximate their carrying amount. The expected cash flows on fixed rate loans that are not impaired, are discounted at current market rates to determine their fair value.

The fair value of loans and advances to banks is also considered to be equal to their carrying amount, as these assets are short-term (with maturity of less than one month). Other borrowed funds are funds received under the programs of BDB which are deemed to be specific. The interest rate on the funding is a floating one, where the terms are equal for all market participants who have access to the program, therefore the interest rate on this funding is considered to be market-based, i.e. based on that the fair value and the carrying amount are not materially different. The Group does not expect payments to be made under guarantees and letters of credit. Unutilized commitments on loans relate mainly to loans with floating interest rates and hence their fair value does not differ materially from their contractual amount.

All amounts are in thousands of EUR unless otherwise stated

30 Fair value information (continued)

The following table shows the fair value hierarchy, applicable to the assets and liabilities:

31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:				
Financial assets at FV through profit or loss	-	515	-	515
Debt instruments at FVOCI	38,420	-	-	38,420
Equity instruments at FVOCI	-	93	2,000	2,093
Land and building for own needs at fair value	-	-	3,759	3,759
Investment properties	-	-	52,938	52,938
Assets for which fair values are disclosed:				
Loans and advances to banks	-	85,867	-	85,867
Loans and advances to customers	-	627,752	-	627,752
Debt instruments at amortised cost	37,111	-	-	37,111
Other financial assets	-	1,829	-	1,829
Total assets	**75,531**	**716,056**	**58,697**	**850,284**
Liabilities for which fair values are disclosed:				
Demand deposits from banks & customers	-	630,580	-	630,580
Term deposits from customers	-	345,544	-	345,544
Other borrowed funds	-	16,136	-	16,136
Other financial liabilities	-	8,099	-	8,099
Total liabilities	**-**	**1,000,359**	**-**	**1,000,359**

31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:				
Financial assets at FV through profit or loss	-	1,018	-	1,018
Debt instruments at FVOCI	28,624	-	-	28,624
Equity instruments at FVOCI		50	1,712	1,762
Land and building for own needs at fair value	-	-	3,893	3,893
Investment properties	-	-	50,517	50,517
Assets for which fair values are disclosed:				
Loans and advances to banks	-	28,082	-	28,082
Loans and advances to customers	-	583,737	-	583,737
Debt instruments at amortised cost	20,284	-	-	20,284
Other financial assets	-	2,459	-	2,459
Total assets	**48,908**	**615,346**	**56,122**	**720,376**
Liabilities for which fair values are disclosed:				
Demand deposits from banks & customers	-	435,902	-	435,902
Term deposits from customers	-	380,117	-	380,117
Other borrowed funds	-	19,496	-	19,496
Other financial liabilities	-	8,656	-	8,656
Total liabilities	**-**	**844,171**	**-**	**844,171**

All amounts are in thousands of EUR unless otherwise stated

30 Fair value information (continued)

At 31 December 2021 there were no movements between the levels, representing the fair values hierarchy of the assets and liabilities.

The following tables summarize the reconciliation between the opening and closing balances of Level 3 the fair values at 31 December 2021:

2021	**Equity instruments at FVOCI**	**Land and building for own needs**	**Investment properties**
At 1 January 2021	**1,712**	**3,893**	**50,517**
Gains/(losses) recognised in profit or loss	-	(134)	31
Aquired and/or reclassified	500	-	5,884
Sold and/or matured	(212)	-	(3,494)
Outgoing transferres from Level 3	-	-	-
Incoming transferres to Level 3	-	-	-
At 31 December 2021	**2,000**	**3,759**	**52,938**

2020	**Equity instruments at FVOCI**	**Land and building for own needs**	**Investment properties**
At 1 January 2020	**326**	**4,027**	**51,693**
Gains/(losses) recognised in profit or loss	(114)	(134)	(1)
Aquired and/or reclassified	1,500	-	2,713
Sold and/or matured	-	-	(3,888)
Outgoing transferres from Level 3	-	-	-
Incoming transferres to Level 3	-	-	-
At 31 December 2020	**1,712**	**3,893**	**50,517**

All amounts are in thousands of EUR unless otherwise stated

30 Fair value information (continued)

Further information on the assets with fair values classified as level 3

Equity securities at fair value in OCI

As at 31 December 2021 the Group holds investments in shares of two companies. Their basic activity is providing of different payment services and innovative thechnological payment solutions. As there are no direct market data, the method of market multipliers of analougue companies is applied for the estimation of the fair value of the shares. Under this method the risk profile and the growth perspective of the assessed company are compared to those of comparable publicly traded companies. The market multipliers for the analogue companies indicate whath would informed investors pay on a regular active market. These multipliers are then compared to the operating characteristics and the financial performance of the assessed company, in order to estimate its fair value. The model is based on a publicly available data.

The table below provides information on the fair value depending on the intended use of the property:

Investment properties

Type of property	2021	2020
Plot (land)	13,033	13,576
Residential	3,522	3,996
Commercial	12,349	12,615
Vacation	22,305	17,488
Industrial	1,729	2,842
Total fair value	**52,938**	**50,517**

Assets held for sale

Type of property	2021	2020
Land	373	812
Residetial	171	1,380
Commercial	8,177	8,235
Vacation	263	296
Industrial	-	30
Total fair value of assets held for sale	**8,984**	**10,753**

All amounts are in thousands of EUR unless otherwise stated

30 Fair value information (continued)

Description of the valuation methods and key input data in determining the fair value of of investment propertis and assets held for sale:

Key:
Method of real value (MRV)
Method of the market approach (MMA)
Method of capitalization of future cash income (MCFCI)

Investment property type	Valuation method	Significant unobserved input data	Range of fair values 2021	2020
	MMA - ZLP	Offer (transaction) price sq.m.	€110 - €330	€110 - €330
Land plots	MMA - LP	Offer (transaction) price sq.m.	€9 - €11	€7 - €9
		Annual growth of market analogues	2-5%	0%
Residential properties	MMA	Offer (transaction) price sq.m.	€250 - €700	€230 - €460
		Annual growth of market analogues	10 - 12%	-
	MCFCI	Estimated monthly rent per sq.m.	€4 - €6	-
		Annual growth of rent	-	-
Commercial properties	MMA	Offer (transaction) price sq.m.	€560- €1,200	€600- €1,300
		Annual growth of market analogues	0%	0%
	MCFCI	Estimated monthly rent per sq.m.	€3.6 - €9	€3 - €8
		Annual growth of rent	5%	0%
Vacation properties	MMA-buildings	Offer (transaction) price sq.m.	€130 - €670	€130 - €550
	MMA - ZLP	Offer (transaction) price sq.m.	€9 - €10	€9 - €15
		Annual growth of market analogues	5%	0%
	MCFCI	Estimated daily rent per room	€30 - €40	€30 - €40
		Annual growth of rent	0%	0%
Industrial properties	MRV	Reference construction prices sq.m.	€265 - €300	€250 - €300
		Annual growth of reference and construction prices	3-5%	0%
	MMA	Offer (transaction) price sq.m.	€40 - €370	€40 - €240
		Annual growth of market analogues	3-5%	0%

All amounts are in thousands of EUR unless otherwise stated

30 Fair value information (continued)

The next table presents sensitivity analysis of the properties prices, based on the type of the property and the most relevant indicators:

Type of property		Range	Comments
Residential properties	Sofia	€900 - €3000/m2	The higher rates apply to appartments situated in the center of the city. New constructions - 1200-2000 EUR/m2, depending of the area and the quality of construction
	Plovdiv, Varna	€700 - €2000/m2	The higher rates apply to appartments situated in the center of the city. New constructions - 700-1400 EUR/m2, depending of the area and the quality of construction
	Burgas, Stara Zagora, Russe	€650 - €1800/m2	The higher rates apply to appartments situated in the center of the city. New constructions - 650-1200 EUR/m2, depending of the area and the quality of construction
Vacation properties		€600 - €1200/m2	The higher rates apply to appartments situated at the sea side in well developed resorts.
Properties in the country	house with a land plot	€5 100k - €40 900k	The lower rates apply to properties situated in an outlying district /over 25-30 km from municipal center/
	house /new construction/ with a land plot	€76 700k - €204 500k	For new constructed houses near (up to 10 km) to the big regional cities, excluding the area of Sofia, Plovdiv and Varna.
Agriculturale land plots	cultivated land plots in productive area	€409 - €767/ decare	The consolidation of land plots forms better prices for the agriculture land. In Dobrudja the prices reach up to 1022 EUR/decare. In the low mountain areas from 150 to 300 EUR/decare.
Office properties	rental price	€6 - €15/m2	Avarage rents for offices class “A“ 10-16 EUR/m2, for offices class “B“ – 6-12 EUR/m2
Commercial properties	rental price	€6 - €35/m2	Avarage rents for retail park offices in Sofia 8-15 EUR/m2, for offices in the malls about 35 EUR/m2. Avarage rents for retail park offices in regional cities 7-10 EUR/m2.
Industrial properties	rental price	€2 - €6/m2	For logistic areas in Sofia – 3,5-6 EUR/m2

All amounts are in thousands of EUR unless otherwise stated

30 Fair value information (continued)

Land and buildings for own use at fair value

As at 31 December 2021, the Group owns land and buildings used as offices for its operations, amounting to EUR 3,759 thousand (2020: EUR 3,893 thousand). The valuation report for the office building in Sofia was prepared in 2021, that shows no significant difference between the fair value and the carrying value of the property, thus no asset's revaluation is accounted for in these financial statements. For the office in Burgas a valuation report has been prepared in 2020. The management belives that during 2021 the fair value of the office did not changed significantly and thus its carrying value approximates fair value.

Description of the evaluation methods and key input data, for determining the fair value of land and buildings for own use:

Property type	Valuation method	Significant unobserved input data	Range of fair values	
			2021	2020
	MMA - ZLP	Offer (transaction) price sq.m.	€500 - €550	€500 - €550
		Annual growth of market analogues	0%	0%
Properties for own use	MMA-building	Offer (transaction) price sq.m.	€1,500 - €1,700	€1,500 - €1,600
		Annual growth of market analogues	5-7%	0%
	MCFCI-building	Estimated monthly rent per sq.m.	€5 - €13	€5 - €13
		Annual growth of rent	0%	0%

Short description of each of the above methods for valuation of land and property:

Method of the market approach (MMA)

According to the market analysis method, the fair value is determined by comparing the evaluated property (land and buildings) to the market price of comparable or similar properties – analogues, taking into consideration the specificities of the evaluated property. The following characteristics of the property are taken into consideration, when selecting market comparables: location, technical characteristics (structure, condition, age, area), function, purpose, infrastructure and transport accessibility of the area etc. The differences of the compared benchmarks and the evaluated properties are adjusted respectively ("plus" or „minus") according to their better or worse characteristics, applying expert factors (percentages) reflecting the extend of the quantitative and qualitative deviations of the evaluated benchmarks.

Method of real value (MRV)

The method of real value or the method of estimated costs is of major significance for determining the fair value of industrial, warehouse, logistic buildings and houses in suburban or rural areas. When valuation apartments, shops, retail facilities, hotels, offices etc., this method is mainly used for reference. The real value method is based on the calculation of the recoverable value of the building at the moment of the evaluation. This is accomplished, using the unit price per square method of total floor area of newly constructed facilities and buildings with similar function, structure, specificities of performance of the additional, finishing, installation and other works. The unit price includes the costs and expenses for the design and construction of the respective project. The cost of any additional improvements in the evaluated separate facility/site in the building is added to the specified value of the facility/site.

All amounts are in thousands of EUR unless otherwise stated

30 Fair value information (continued)

Method of capitalization of future cash income (MCFCI)

The result of the evaluation of the respective property, based on the future cash flows capitalization, is the market value, which is obtained based on the valuation of the expected future yield of the property (net cash flows). The information from advertisements and notices, published in specialized printed media, on the internet or other media, reflect the investment intentions of the investors-sellers (landlords) of properties and is not the most reliable source of market information (market evidences) –that is why, if we rely on bid values, these are adjusted 5-10% below.

31 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Group considers as related parties the members of its key management personnel and entities owned, controlled or significantly influenced by such persons. Furthermore, related parties of the Bank are holders of a substantial proportion of its capital.

As a result of several transactions during the reporting period, the BACB's main shareholder CSIF AD has decreased its shareholdings from 61.56% as of 31 December 2020 to 45.68% as of 31 December 2021 and Mrs.Tzvetelina Borislavova-Karagyozova has aquired direct shareholdings in BACB amounting to 9.98%. Mrs. Tzvetelina Borislavova-Karagyozova is a person exercising control over the shareholder "CSIF" AD as: 1) she holds more than 50% of the shares in the General Meeting of Shareholders and 2) she may determine more than half of the members of its Board of Directors. The changes in the shareholding structure of BACB in 2021 did not lead to a change in the persons controlling (direct or indirct) BACB.

LTBI HOLDINGS LLC, registered in USA, holds 35.73% of the BACB's share capital and has significat influence over BACB, consequently is a related party to the Bank.

The Group enters into transactions with related parties in the normal course of business. These transactions are carried out at market rates and include loans, deposits and other banking services. Transactions with the following related parties took place in 2020 in the course of operations:

Related party	Relationship
CSIF AD	shareholder with significant influence over BACB
IDS Fund	Joint venture between BACB Finance and CSIF AD
Other related entities	entities that are controlled or significantly influenced by the main shareholder CSIF AD or a member of the BACB key management personnel
Management	**Members of the Supervisory Board and the Management Board of BACB, incl.:**
Mrs. Tzvetelina Borislavova-Karagyozova	*Chairperson of BACB's Supervisory Board*
Mr. Martin Ganev	*Member of BACB's Supervisory Board*
Mr. Peter Atanasov	*Member of BACB's Supervisory Board*
Mr. Vassil Simov	*Chairman of BACB's Management Board and Executive Director till 29 Dec.2021*
Mr. Ilian Georgiev	*Member of BACB's Management Board and CEO*
Mrs. Loreta Grigorova	*Member of BACB's Management Board and Executive Director*
Mr. Alexander Dimitrov	*Member of BACB's Management Board and Executive Director*
Mrs. Silvia Kirilova	*Member of BACB's Management Board*

All amounts are in thousands of EUR unless otherwise stated

31 Related party transactions (continued)

The information on related parties' transactions and the related income and expense as of 31 December 2021 and 2020 is summarized in the following tables:

Balance as at 31 December 2021	CSIF	Key management personnel	Other related parties	Total
Assets				
Loans and advances to customers	-	35	2,208	2,243
Total	**-**	**35**	**2,208**	**2,243**
Liabilities				
Deposits from customers	426	12,260	13,455	26,141
Total	**426**	**12,260**	**13,455**	**26,141**
Off-balance sheet commitments				
Unutilized commitments on loans	-	25	-	25
Guarantees and letters of credit	-	-	10	10

Expenses and income generated by transactions with related parties in 2021	CSIF	Key management personnel	Other related parties	Total
Expenses				
Interest expense	-	27	5	32
Administrative expenses	477	-	343	820
Total expenses	**477**	**27**	**348**	**852**
Income				
Interest income	-	1	77	78
Fees and commission income	1	1	132	134
Other operating income	-	-	24	24
Total income	**1**	**2**	**233**	**236**

All amounts are in thousands of EUR unless otherwise stated

31 Related party transactions (continued)

Balance as at 31 December 2020	CSIF	Key management personnel	Other related parties	Total
Assets				
Loans and advances to customers	-	2	2,470	2,472
Total	**-**	**2**	**2,470**	**2,472**
Liabilities				
Deposits from customers	234	13,659	5,903	19,796
Total	**234**	**13,659**	**5,903**	**19,796**
Off-balance sheet commitments				
Unutilized commitments on loans	-	38	-	38
Guarantees and letters of credit	-	-	10	10

Expenses and income generated by transactions with related parties in 2020	CSIF	Key management personnel	Other related parties	Total
Expenses				
Interest expense	-	41	8	49
Administrative expenses	483	-	191	674
Total expenses	**483**	**41**	**199**	**723**
Income				
Interest income	-	1	54	55
Fees and commission income	6	1	68	75
Other operating income	-	-	22	22
Total income	**6**	**2**	**144**	**152**

Key management remuneration

In the financial years 2021 and 2020, the Bank has accrued remuneration to the key management personnel as follows:

Key management personnel	**2021**	**2020**
Supervisory Board	40	37
Management Board	273	306
Total	**313**	**343**

32 Financial risk management

32.1. Going concern

The Group financial statements have been prepared under the going concern assumption. However, as disclosed below, the Group's activities are subject to various risk factors, conditions and uncertainties that could impact its future performance or its ability to continue as a going concern. The management considers that the Group will continue as a going concern through proper risk management, increase in operating efficiency and securing of sufficient funds through self-financing ability improvement, diversifying the sources of financing and adequate capital position.

32.1.1. Main risk factors

The risks to which the Group is exposed can be successfully managed and mitigated by applying preventive measures, appropriate control systems and process automatisation. Some risks are outside the Bank's control and cannot be mitigated. The principal factors described below should not be regarded as complete and comprehensive statements of all potential risks and uncertainties because there may be risks or uncertainties of which the Group is not aware or which the Group does not consider significant but in the future may become such.

The Group's continued growth and success depend substantially on the health of the Bulgarian and the global economy. The economic environment continues to be challenging. Any further negative changes in macroeconomic factors could have adverse effect on the Group's business, results from operations and financial condition.

Like all other banks, BACB, the main Group company is subject to various risks. The Bank has established risk management policies and procedures to identify, monitor and manage the levels of risk to which it is exposed. The risk management policy is adopted by the Management Board and approved by the Supervisory Board. The document governs the organization of the activities for the fulfillment of the strategic objectives, the risk management framework and the risk tolerance, adopted by the Supervisory and Management Boards of the Bank.

The Group companies follow the risk management policies which are valid in the Bank and are managed by executive directors who report and agree the subsidiaries'activity with the Bank's Management board. They apply the policies based on the specifics of their business activity and the limits of their volumes and organization.

The risk management and control policy and rules set evaluation methods for various types of risks to which the Bank is exposed (including, but not limited to: credit risk, liquidity risk, interest rate risk, foreign currency risk and contractor credit risk, define the connections between the individual structural units in the management of the risks and establish an early warning system of limits and indicators, reflecting the risk tolerance, adopted by the Group.

The main objective of the risk policy is to impose clearly defined parameters on the Group's operations in order to minimize potential adverse effects on its financial performance. Compliance with the various requirements of the risk policy is reviewed on a regular basis, depending on the level of risk and potential impact on the operations. Any variances from the Group's standards are reported to the management for remedial action as provided for in the internal rules. The risk management policy is reviewed on an annual basis in order to apply adequate and efficiently functioning risk management and control systems. In addition, internal audit is responsible for the independent review of risk management systems and the compliance with the adopted policies.

Recovery plan of the Bank / Directive 59/15.05.2014

In accordance with the requirements of Directive 2014/59 of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions, art. 6 of the Recovery and Resolution of Credit Institutions and Investment Firms Act, art. 73g of the Credit Institutions Act and art. 25 of Ordinance No. 7 of the Central Bank (BNB) on the risk organization and management in banks, all banks prepare a recovery plan, consisting of actions and measures, which are to be taken in order to recover their financial position, in case of financial difficulties.

32 Financial risk management (continued)

32.1.1. Main risk factors (continued)

Recovery plan of the Bank / Directive 59/15.05.2014

The recovery plan, adopted with a decision of the Management Board from 20 November 2014 and approved by the Supervisory Board on 27 November 2014. The Document consists of four main parts, which detail the plan development process, the rules for its activation, the recovery options in various scenarios and the rules for internal and external communication in case of plan activation. The recovery plan contains an analysis of the effect of adverse events, which may affect strongly the Group's financial position, including crises, having effect on the entire financial market and on the Group in particular. Also included is a description of the plan development and activation processes, as well as the applied limits and indicators, related to the preventive evaluation of the vulnerability of the liquidity and equity positions, the yield, risk profile and any necessary actions. The plan also details and analyses the structure and key activities of the Group, as well as the main moments in its strategy. A main part of the plan is dedicated to the recovery options –the selected recovery measures, assessment of the quantitative/qualitative effect, implementation period and fulfillment likeliness, as well as an evaluation of the results of the stress scenarios applied. Also developed is a communication plan with the internal structures of the Group and external organizations, as well as stages, order and scope of the actions, related to the recovery plan activation. From its inception, the Plan is reconsidered and updated yearly and presented to the regulatory body – BNB. The last update is approved by the Management Board on 27 May 2021 and by the Supervisory Board on 8 June 2021. The last revision includes an estimate of the impact of COVID 19 and summary of the effects on the business perfopmance of the Bank, capability analysis of recovery after application of related measures and identification of possible obstacles / risk factors for application of the related options / measures.

Assessment of the impact of the COVID 19 epidemic on the operations and the financial statements

The spread of COVID 19 has led to an unprecedented situation worldwide and has had a strong negative impact on the economy, business, banking system, income and employment.

As we entered the recovery phase, the focus shifted from immediate constraints and negatives to the structural changes and the nature of recovery. Although there was no significant negative impact in 2021, the main highlights and/or risks in the activity of the Group are expected to be related to:

- Portfolio quality management - active actions for timely identification of potential problems and implementation of appropriate measures to limit the potential growth of non-performing exposures;
- Increased attention to the liquidity position and ensuring a sustainable financing model;
- Optimization and digitalization of work processes to support the profitability and competitive position of the Bank;
- Development of credit standards;
- Possibility to ensure profitability corresponding to the assumed risk in the conditions of extremely narrowed interest margins.

BACB Fiance which main activity is similar to the Bank's and is impacted by the COVID-19 applies by anology the necessary measures and procedures established by the Bank. The activity of BACB Trade is not impacted by the pandemic.

In 2021 the management has taken a number of actions to limit potential future negatives both for the Bank and the Group companies:

- an emergency plan has been activated,
- the critical functions and the scope of the employees to ensure their continuity are defined,
- safe environment and remote operation mode are provided,
- active monitoring and management of incoming and outgoing cash flows is carried out,
- active remote communication with borrowers and clients is carried out.
- periodical monitoring of the borrowers who have benefited from the Moratorium or are operating in the most impacted sectors, has been performed

32 Financial risk management (continued)

32.2. Credit risk

Credit risks the current or potential risk for the income and equity, occurring due to the incapability of the debtor to fulfill the requirements of a signed contract or his incapability to act in accordance with the contractual terms and conditions. A credit risk occurs with respect to the operations, related to the granting of loans, deposits in other banks, as well as any investments in securities. Credit risk is the most important risk for the whole Group's business but mainly for the Bank and the management therefore carefully manages the exposure of the Bank and the subsidiaries to credit risk.

The Group's lending policy and lending manual are developed by the organizational units responsible for lending and risk management as well as the Legal department, and are approved by the Management Board and applied to the operations of all Group's companies (where applicable and based on the specifics of the business activity). The system of internal rules, procedures and standardized loan products reflects the organizational structure and the strategy of the Group, regulates the credit analysis and approval process, defines the loan approval authorities, sets rules on the loan documentation required by the Bank and outlines processes for loan disbursement and ongoing monitoring, type and value of accepted collateral, required insurance and other risk reduction techniques. As further disclosed below, there is loan portfolio concentration of risk in both a limited number of customers and in a limited number of industry sectors, which may be adversely affected in case of worsening economic environment.

The Bank's internal lending rules set out detailed procedures for controlling the spending of credit funds, for regular monitoring of the borrower's financial condition, as well as checks on the current state of the collateral on the loan and the implementation of the agreed contractual terms and conditions. For all exposures to one client or group of related parties amounting to over 1% of the Bank's capital, the management monitors the compliance with the terms of the contract, the financial condition of the debtor, the collateral status and other financial indicators. For the needs of risk management, periodic analyses are made on these loans at least twice a year.

Pursuant to the EBA Guidelines (2018/06) on management of non-performing and forborne exposures, in 2019 a Strategy and an Operations programm for the management of non-performing exposures and acquired collateral for non-performing exposures were developed, which were adopted by the Management Board and approved by the Supervisory Board. The Strategy and the Operations programmq including operating plans for the period 2022-2024, were reconsidered and updated with a decision of the Management board from 25 November 2021 and approved by the Supervisory board on the 7 December 2021. The Strategy aims to improve the risk profile and introduce additional measures related to the process of monitoring and control of non-performing assets by defining the main parameters of the program of reducing the non-performing exposures in the medium term and specific options for individual exposures or portfolios. The insufficiently effective management and maintenance of asset quality or insufficient asset growth could have a negative impact on the Group's business, performance and financial condition.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Maximum exposure to credit risk

The maximum exposure to credit risk is shown below by financial asset classes. The deposits with BNB are not included in the table below, because these have the minimum possible inherent credit risk and the management considers that risk insignificant.

	2021		2020	
	Maximum exposure	Net exposure	Maximum exposure	Net exposure
Loans and advances to banks	85,867	85,867	28,082	28,082
Loans and advances to customers	637,444	73,067	587,066	82,213
Financial assets at FV through profit or loss	515	515	1,018	1,018
Financial asset at FVOCI	40,513	40,513	30,386	30,386
Debt instruments at amortised cost	37,024	37,024	19,314	19,314
Other financial assets	1,829	1,829	2,460	2,460
Total	**803,192**	**238,815**	**668,326**	**163,473**
Maximum credit exposure related to off-balance sheet exposures				
Unutilized commitments on loans	53,250	27,205	34,626	18,287
Bank guarantees and L/C issued	15,596	2,508	10,319	1,389

The amount of net exposure of loans and advances to customers and bank guarantees, represents the reduced carrying amount with the amount of highly liquid collaterals, calculated on a loan by loan or guarantee by guarantee basis. The Group calculates the net exposure of unutilized commitments on loans by deducting all other loan securities.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Control on credit limits and acceptance of collateral

The lending process at the Group (primarily for the Bank) is based on the principle of distribution of the functions and competences for the analyzing, decision-making and approval of the loans, the management and control of the loan transactions. Credit risk is managed through the use of limits that set a threshold (the level of risk to be accepted) for a specific borrower or group of counterparties (including related parties).

The management of credit risk and concentration risk is based on:

1. Application of a complex system for timely identification of risk, including:

- regular internal reviews of sub-portfolios and significant individual exposures – assessments and trends in their development;
- analysis of external operational environment conditions and periodic review of risks in certain sectors;
- review of risk reduction techniques used;
- review of the economic performance of significant debtors;
- review of sources of funding;
- periodic review and evaluation of the security levels;

2. Application of a set of limits by type of risk category and business line/unit, as well as regularly reviewed key risk indicators system. The levels of the limits, including pre-threshold values, reflect the risk tolerance that the Group is prepared to accept in its usual course of business;

The Group, through the Bank limits credit risk and concentration risk by setting limits on credit exposures in relation to a single borrower or a group of related borrowers and to industry sectors. The Group (the Bank) also monitors the concentration by geographical location. The observance of the limits is monitored on an ongoing basis and the adequacy of the limits set is subject to a periodic review. The Group carries out regular stress-tests for the evaluation of credit risk exposures, evaluation of the effect on the equity position, identification of critical exposures and determining measures for credit risk mitigation and preservation of the capital position.

Concentration by countries and counterparties
The Group does not have significant investments outside Bulgaria. The exposures to non-residential parties represent up to 10% of total assets and off-balance sheet commitments of the Group and basically result from the current management of liquid funds, namely: amounts placed on the interbank money market and current accounts with foreign banks with a high credit rating. The securities portfolio mainly includes Bulgarian bonds, approximately 91.0% of which are government bonds. The majority of the Group's loan portfolio includes loans to customers operating in Bulgaria.

As part of the Bank's operations of the Markets and Liquidity Department, the Bank places deposits and enters into currency transactions with local and foreign banks within certain limits by counterparties. The limits are approved by the Asset and Liability Management Committee of BACB (ALCO), following a proposal by the Markets and Liquidity Department. The exposures are monitored on a daily basis by the Back Office and reviewed periodically at ALCO meetings. Exposure limits for the bank's interbank lines are approved based on a review of the capital strength, liquidity position and shareholding structure of the counterparty bank. The list of the approved counterparties and limits is reviewed and updated at least once a year.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Concentration by industry sectors

The loan portfolio of the Group (the Bank and BACB Finance EAD) is spread across various economic sectors. The decision to increase the weight in a particular sector depends on the Group's assessment of the growth potential of this sector. Proper diversification of the portfolio (as a whole and within each sector) is one of the main goals of the credit risk management of the Group. The annual review process of the risk management policy includes the expansion of the system of internal limits and early warning indicator with the goal of ensuring adequate control and management of risks. For achieving better diversification, the risk management policy sets a limit for exposure to a single economic sector up to 15% of the total portfolio.

The Risk Management Department of the Bank monitors on an ongoing basis the industry concentration ratios and informs Management quarterly and in case the concentration in a particular sector is close to the limit. Although the Group has internal limits on its exposure to particular industry sectors, it does not aim to predetermine a minimum amount for lending to particular sectors. Each potential loan is considered and approved according to the internal lending rules and procedures taking into account its impact on the concentration limits.

As at 31 December 2021, the trend of improving portfolio diversification continues. To assess the concentration risk posed by industry positioning in the loan portfolio, the Group uses the Herfindahl-Hirschman Index (HHI), calculated as the sum of the squares of the Group's (primarily for the Bank) relative share (exposure) in each industry. HHI at perfect diversification is calculated assuming the same volume of exposure in each industry. The growth in the retail segment, the decrease in sectors Agriculture, Transportation, Hotels and Electricity production, and the better industry positioning lead to a decrease in the value of the index for corporate loans (HHI) from 489 at the end of 2020 to 473 at the end of 2021. Compared with the results of a perfectly diversified portfolio (HHI~270), the index shows a reduction of high industry risk to moderate levels, where the top 3 industries form 30.3% of the balance sheet exposure (2020: 30.5%). The exposure of the Group to the economic sectors mostly impacted by the COVID 19 pandemic is limited – in the loan portfolio there are no exposures to sectors like "Air transport" and "Construction of office buildings and trade centers", and the total exposure to the sector "Hotels and tourism" was decreased by about 2 %.

The Group continues to diversify its loan portfolio, offering new loan products and new options for financing small and medium-sized companies, and in the last years successfully expanded its activities in the SME segment by projects funded under the EU Operational Programmes.

Concentration by customers

The Group (through the Bank) limits credit risk and concentration risk by setting limits on credit exposures in relation to a single borrower or a group of related borrowers. The observance of the limits is monitored on an ongoing basis and the adequacy of the limits set is subject to a periodic review. Based on evaluation of the market environment, demand and development perspectives for the different economic sectors and in order to achieve better diversification and risk control, the credit policy of the Bank focuses on:

- Providing appropriate working capital loans for well performing manufacturing and commercial businesses;
- Providing investment loans for green economy, energy efficiency, and renewable energy projects;
- Supporting projects utilizing EU funding;

All loans are analyzed extensively and evaluated on a case-by-case basis. The analysis is aimed at evaluating the credit risk of the borrower and includes review of the solvency and legal status of the borrower, background / reference checks, related parties checks, company analysis (i.e. products, markets, suppliers, management, finances, etc.), collateral analysis (i.e. clean title, market value, etc.).

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Concentration by customers (continued)

The focus of the activity in the last few years is the expansion of the retail segment, not only through the expansion of the share of micro enterprises, but also through growth in the products and services provided for individual customers - natural persons. This goal is ensured by actively offering consumer and mortgage loans, expanding and adapting the product catalogue and meeting customer needs and market conditions.

At 31 December 2021 and 31 December 2020 the twenty largest credit exposures prior to impairment (including exposures within loans, guarantees and other loan instruments) form 34.4% and 36.2% respectively, of the total loan portfolio before impairment.

All loans in amount equal to or exceeding 10% of Bank's capital base are approved by the Management Board and the Supervisory Board of the Bank. All loans in amount equal to or exceeding 15% of Bank's capital base require an unanimous approval. The large exposures to an individual customer or group of related parties are controlled in accordance with regulatory requirements and reported on a regular basis. Exposure to credit risk is minimized by obtaining collateral as well as corporate and personal guarantees.

At the end of 2021 a part of the loan portfolio is concentrated in a limited number of debtors. There is a possibility that the Group's operations, its financial position and the results of its operations are adversely affected in case of slowed down economic growth and worsened business climate, which may result in non-performance on the part of some of the major debtors. Information on the large exposures (an exposure representing 10 or more per-cent of the capital base of the Bank as defined in Regulation 575/2013) at carrying value before impairement*, as of 31 December 2021 and 31 December 2020, is presented in the table below:

	2021		2020	
	(€ 000)	*% of capital base*	*(€ 000)*	*% of capital base*
Largest exposure to a single client group	20,365	19.2	19,767	19.8
Aggregate of five largest exposures	87,070	81.9	93,328	93.6
Aggregate of all exposures-over 10% of capital base	178,763	168.1	166,286	166.8

**The exposure amount is presented prior to the use of credit protection techniques*

Loan commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable commitment that the Group (the Bank) will make the payment in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. The contingent commitments represent unused portions of authorizations on concluded contracts that are expected to be extended in the form of loans and guarantees. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total commitments since commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because long-term commitments generally have a greater degree of credit risk than short-term commitments.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Collaterals

Loans advanced by the Group (the Bank and BACB Finance EAD) are normally secured by all or part of the borrower's assets and, in some cases security is taken over assets of third parties such as the directors or shareholders of a corporate borrower. For some specific standardized loan products the Management Board of the Bank could approve providing of unsecured financing, and as at 31 December 2021 such products are some retail loans and credit cards issued to individuals or legal entities.

The credit operations policy sets out the applied principles and guidelines on the acceptability of specific assets, accepted as collaterals. The principal collateral types are:

- Mortgage on real estate
- Cash collateral
- Pledge on movable assets and on current/future receivables
- Pledge on securities, stocks or company shares
- Pledge on commercial enterprises
- Various guarantees

Prior to advancing a loan, the Group values the real estate accepted as collateral at market value, and for its determination is used mainly the method of comparable market analogues.

In a more limited scope are used also the real value method and/or the Future cash income capitalization method. For other types of collateral, the Group uses a reduced value (which represents the current carrying amount reduced by a certain percentage depending on the type of collateral) according to criteria approved by the Management Board. According to the internal rules and policies, the Group considers a loan to be sufficiently collateralized in case the discounted value of the proposed collateral covers the loan amount at 100%. The discount rates by type of collaterals applied at inception are an integral part of the lending policy and are approved by the Supervisory and Management Boards. The Management Board could decide for exceptions subject to approval by the Supervisory Board in case the internal rules provide for such exceptions. All real estates are valued by licensed external and/or internal evaluators. At the time of realization the liquidation values may materially change from the ones at inception of a loan.

As a part of the risk management policy, the Group carries out annual real estate market analyses, covering the overall changes in the prices by types of collaterals: residential properties (review by regions), land, industrial, shops, retail facilities, hotels, offices, and provides information on the changes by regions and – if possible – on the concentration by regional centres and resorts. Based on the expert analysis and the observed changes on the real estate market, the Group carries out regular stress tests of the accepted collaterals in order to assess the vulnerability to a potential drop in the prices of assets, used as collaterals for granted loans, as far as a part of the loans are collateralized by real estate.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Collaterals (continued)

The table below contains a breakdown of Loan Portfolio by type of collateral at 31 December 2021 and 31 December 2020:

	2021		2020	
	EUR' 000	*%*	*EUR' 000*	*%*
Real estate*	402,989	59.99	361,491	57.31
Cash	7,360	1.10	6,464	1.02
Financial guaranties or insurances	41,389	6.16	25,552	4.05
Pledge on receivables from EU funds	16,691	2.48	16,311	2.59
Equipment	54,940	8.18	57,207	9.07
Inventory	24,733	3.68	21,097	3.35
Other receivables and other assets	94,938	14.13	101,236	16.07
Promissory notes	19,118	2.85	28,152	4.46
Unsecured	9,651	1.44	13,140	2.08
Loans to customers	**671,809**	100	**630,650**	100

* *The receivables under financial lease of buildings are presented as collateralized with real estate, as far as the transfer of the lease properties depends on the performance of the contractual terms and conditions by the lessee*

The value of loans is distributed based on the value of the constituted valid collaterals at the balance sheet date, according to their type. If there is more than one type of collateral on the exposure the distribution is made by order of liquidity. The yearly review at the and of 2021 did not identified significant negative impact of the COVID pandemic on the values of the collaterals recognised.

Impairment on financial assets

The Group has established an internal policy and procedures for monitoring and classification of its risk exposures and determining the impairment loss (based on the Bank). These documents are used to determine the terms and conditions and the rules for identification of increased credit risk and the formation of impairment losses. The specialized internal body for monitoring, assessment and classification of the risk exposures assesses the available information and determines the amount of the expected credit losses on a monthly basis.

The Group applies a single impairment model to all financial assets that are not measured at fair value through profit or loss, including undrawn loan commitments and issued financial guarantees. The impairment model developed in compliance with the requirements of IFRS 9 is a pattern of the expected credit losses which provides for an earlier recognition of credit losses and allocating of impairment allowances prior to incurring losses.

The Group reports an impairment allowance for its financial assets carried at amortized cost - loans and debt instruments, for debt instruments measured at fair value through OCI, trade receivables, and financial guarantee contracts and other credit commitments. No impairment of equity instruments is reported.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

For the purpose of applying the requirements for impairment under IFRS 9, a Policy was developed for assessment of changes in credit quality and determination of expected credit losses (the Bank). The Policy serves as a framework for defining:

a. Expected credit losses for 12 months or for the entire duration of the instrument

Expected credit losses (ECLs) are recognized on a basis of the probability of default over the entire life of the instrument unless the credit risk after the initial recognition has changed significantly, whereby the expected credit losses for 12 months are taken into account. The expected credit losses for 12 months represent the portion of credit losses over the instrument's life due to a default that may occur within 12 months after the reporting date.

The Group considers its short-term receivables from banks and debt instruments measured at amortized cost or at fair value in the OCI for low credit risk instruments. Under these, the Group always reports 12 monthly credit losses as it considers that the likelihood of default is unlikely. If there are indications that the low credit risk criteria may no longer be met in the subsequent reporting periods, the Group performs an analysis of the change in credit risk relative to the initial recognition in order to assess the need for a loss allowance over the full period of the instrument.

For its trade receivables, which are mainly lease receivables, the Group applies a simplified approach and always defines the ECLs over the life of the asset without tracking changes in credit quality. The Group uses a provisioning matrix for the calculation of ECLs on trade receivables based on past due days and historical loss data. The historical information is refined in order to correct historical experience by including prospective economic information.

b. Approach and models for impairment of financial assets – on a collective and individual basis

The parameters affecting the amount of expected credit losses are determined collectively or individually, depending on the type and nature of the financial instruments under consideration. The Group determines the ECLs individually for all instruments with Stage 3 risk classification, as well as credit exposures to corporate clients, loans to small and medium-sized enterprises in Stage 1 and 2 exceeding a certain amount, investment in debt securities, exposures to banks as short-term bank receivables, funds blocked as collateral on repurchase transactions, etc. The collective approach applies to exposures with a Stage 1 or Stage 2 risk classification. On a collective basis, the risk parameters are estimated for loans grouped into portfolios based on common product and risk characteristics. As at 31 December 2021 and 31 December 20209, the Group has formed the following portfolios for the purposes of determining collectively expected credit losses:

2021	Amortized cost	ECL	Net carrying amount
Loans under EU programs for legal entities	21,015	(34)	20,981
Loans to micro-enterprises	17,944	(115)	17,829
Mortgage loans to individuals	106,242	(31)	106,211
Consumer loans to individuals	37,950	(4,137)	33,813
Financial guarantees for micro-enterprises - nominal size	1,864	(2)	1,862
Total	**185,015**	**(4,319)**	**180,696**

2020	Amortized cost	ECL	Net carrying amount
Loans under EU programs for legal entities	21,214	(119)	21,095
Loans to micro-enterprises	18,035	(104)	17,931
Mortgage loans to individuals	73,609	(113)	73,496
Consumer loans to individuals	31,567	(3,108)	28,459
Financial guarantees for micro-enterprises - nominal size	2,746	(62)	2,684
Total	**147,171**	**(3,506)**	**143,665**

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

c. Criteria for assessing increased credit risk

On each reporting date, for the purpose of determining the loss allowance, the Group compares the credit risk levels, i.e. the probability of default occurring at the reporting date and at the date of the initial recognition of the asset. The analysis of the changes is made on the basis of available relevant information, which is accessible to the Group and which can be justified without the use of unnecessary resources. This information includes:

- historical data on the performance of certain financial instruments or other financial instruments with similar risk characteristics,
- data on the current performance of the instruments under consideration – number of days past due, default on contractual conditions, etc.
- reasoned assumptions and expectations that are expected in the future to affect the credit risk of the assets under consideration

Exposures with restructuring measures applied

Pre-agreed loans include exposures renegotiated at the client's request due to changes in market conditions and restructured loans. Upon change in the contractual terms, the Group continues to report interest income on the exposure based on the initially calculated effective interest rate, and the difference between the old amortized cost and the present value of the newly contracted cash flows is recognized in profit or loss as a result of a modification. Exposures in respect of which the Group has applied discounts due to deterioration in financial condition and inability to service liabilities are considered loans with restructuring measures applied. This may include extending the period and changing credit terms and conditions. Once the terms are renegotiated, any impairment is calculated using the original effective interest rate as calculated before the change in the terms and conditions and the credit is no longer considered overdue.

The performance of the renegotiated terms is subject to periodic review. The loans continue to be measured for a change in credit quality at each reporting date.

Impact of the COVID 19 crisis on the change in the contractual terms of credit exposures

In the pandemic environment that has led to a number of negative consequences for the economy and the labor market, the Group seeks to support its customers in order to minimize credit risk and overcome the negative effects of the crisis. In view of the state of emergency imposed by the National Assembly on 13 March 2020 in connection with the pandemic of COVID 19, BACB joined the Procedure for deferment and settlement of due obligations, prepared pursuant to the Guidelines of the European Banking Authority (EBA/GL/2020/02) and approved by the BNB. Under the terms of the private moratorium, the customers were offered the option to defer their liabilities (all amounts due or only principal) for up to 9 months, with outstanding amounts being repaid in instalments after the grace period expires, according to the relevant deferral mechanism. The benefits are applicable to customers who meet the following conditions:

- natural persons or legal entities who have or expect difficulties in repaying their liabilities under the contract concluded with the creditor in connection with the pandemic of COVID 19 and the restrictions imposed by the government and their consequences
- customers have expressed an explicit desire to take advantage of the benefits
- as at 1 March 2020 and as at the date of filing a request for deferral, the customer's obligations were regularly paid or overdue not more than 90 days

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

Pursuant to the provisions of the EBA Guidelines, the Bank has developed and implemented an Operational Plan in order to limit the risks arising from the global emergency situation, as well as timely identification and differentiation of problems with business and individual customers - borrowers.

The social and economic consequences (including moratoria measures) from the crisis stemming from the COVID-19 pandemic increased the estimation uncertainty of the ECL measurement. The Bank has addressed this by reassessing the assumptions for probability of default (PD) and enhancing its credit risk monitoring procedures to distinguish the cases/indications that are related to long-term financial difficulties of the borrowers from those that are derived from the pandemic and represent temporary liquidity difficulties.

The tables below show information, as at 31 December 2021 and 31 December 2020 on the number and amount of the exposures of the Bank, subject of the Deferral Framework, related to the COVID-19 pandemic.

Exposures, meeting EBA's requirements:

2021	*Performing*			*Non-performing*		
Client's type	*#*	*Gross carrying amount*	*Net carrying amount*	*#*	*Gross carrying amount*	*Net carrying amount*
Corporate	69	87,586	86,956	5	1,981	1,449
Individuals	264	5,986	5,897	126	682	236
Total	**333**	**93,572**	**92,853**	**131**	**2,663**	**1,685**

2020	*Performing*			*Non-performing*		
Client's type	*#*	*Gross carrying amount*	*Net carrying amount*	*#*	*Gross carrying amount*	*Net carrying amount*
Corporate	91	106,969	106,381	3	502	382
Individuals	370	6,875	6,710	42	439	268
Total	**461**	**113,844**	**113,091**	**45**	**941**	**650**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

Exposures, which do not meet EBA's requirements and where forbearance measures, related to COVID-19 have been applied:

2021	*Performing*			*Non-performing*		
Client's type	*#*	*Gross carrying amount*	*Net carrying amount*	*#*	*Gross carrying amount*	*Net carrying amount*
Corporate	7	12,598	12,591	6	8,736	8,390
Individuals	12	407	388	13	115	87
Total	**19**	**13,005**	**12,979**	**19**	**8,851**	**8,477**

2020	*Performing*			*Non-performing*		
Client's type	*#*	*Gross carrying amount*	*Net carrying amount*	*#*	*Gross carrying amount*	*Net carrying amount*
Corporate	7	9,531	9,514	12	18,027	18,027
Individuals	5	47	27	17	196	147
Total	**12**	**9,578**	**9,541**	**29**	**18,223**	**18,174**

Another form of support are the new originated loans, within public guarantee schemes. BACB was the first bank to sign an agreement and grant loans within Bulgarian Development Bank's scheme for supporting the small and medium-sized businesses, affected by COVID 19. The parameters of the scheme include:

- the total amount of the portfolio under the scheme amounts to EUR 31 mln /BGN 61 mln/;
- the maximum amount of the individual financing is up to EUR 1,534 thousands /BGN 3 mln/ for SMEs and large enterprises;
- the payment limit – up to 50%, with guarantee coverage of 80%.

From the beginning of the scheme - 1 June 2020 to 31 December 2021, 195 loans of a total amount of EUR 22,317 thousands were granted or are in the process of signing contractual documentation, to companies with over 4,175 employees and assets totalling EUR 482,029 thousands.

On 26 November 2021 BACB has signed a new agreement with Bulgarian Development Bank's under a guarantee scheme "Recovery" for supporting the businesses through issuing of 80% guarantees. The loans are approved in a shorter term then other loans and do not require any collateral. From the beginning of the scheme to 31 December 2021, 7 loans of a total amount of EUR 979 thousand were approved/contracted to companies with over 42 employees and assets totaling EUR 5,566 thousand.

BACB was also the first bank to sign an agreement and grant a loan within the program Fund Manager of Financial Instruments in Bulgaria for portfolio guarantee with a loss limit for overcoming the consequences of the COVID-19 pandemic, amounting to EUR 10,226 thousands /BGN 20 mln/, with guarantee coverage of 80%. As at 31 December 2021 a total of 21 loans, amounting to EUR 10,114 thousands have been agreed upon.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

The tables below show information on the balance sheet values of the new originated loans, within public guarantee schemes, related to the crisis, as at 31 December 2021 and 31 December 2020:

2021	*Performing*			*Non-performing*		
Client's type	#	*Gross carrying amount*	*Net carrying amount*	#	*Gross carrying amount*	*Net carrying amount*
Corporate	182	25,382	25,191	8	695	521
Total	**182**	**25,382**	**25,191**	**8**	**695**	**521**

2020	*Performing*			*Non-performing*		
Client's type	#	*Gross carrying amount*	*Net carrying amount*	#	*Gross carrying amount*	*Net carrying amount*
Corporate	100	9,627	9,564		-	-
Total	**100**	**9,627**	**9,564**		**-**	**-**

In relation to the other Group companies the above is used by anology where applicable and if not – for example for trade receivables, an age analysis is made and a defined loss is applied based on the historic experience and the relevant future macro-economic factors if they have influence.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

d. Risk classification according to the credit quality of the financial assets

The analysis of the changes in the credit quality of the financial assets compared to their initial recording determines their risk classification in three main stages as well as the subsequent recognition of impairment allowance:

- Stage 1 (regular exposures) – classifies financial assets without indication of an increase in credit risk compared to the initial measurement. The Group recognizes 12-month ECLs for Stage 1 classified financial assets. The interest income is recognized using the effective interest method on the gross carrying amount of the instrument.
- Stage 2 (exposures with impaired performance) – classifies financial assets with a significant increase in credit risk but without objective evidence of impairment or basis for incurring losses. The Group recognizes ECLs for the entire life of the instrument classified under Stage 2. The interest income is recognized using the effective interest method on the gross carrying amount of the instrument.
- Stage 3 (exposures with credit impairment) – classifies financial assets with a significant increase in credit risk and objective evidence of impairment (defaulted exposures). The Group recognizes expected credit losses for the full term of the instrument, assuming for the classification in Stage 3 that the Probability of Default (PD) risk parameter is 100%. Interest income is recognized using the effective interest method on the net carrying amount of the instrument, i.e. after deduction of the loss allowance.

Definition of credit impaired exposures: A financial asset is considered credit impaired when one or more events have occurred that have a material adverse effect on the future expected cash flows from the asset. Evidence of the occurrence of adverse events may be some of the following circumstances:

1) Allowed overdue payments of principal and/or interest exceeding 90 days;
2) Significant financial difficulties leading to counterparty cash flow disruptions;
3) Renegotiating the terms of the contract with substantial discounts for the debtor caused by financial difficulties;
4) Significant probability of commencing insolvency or liquidation of the debtor;
5) Material deterioration of the counterparty's market positions or suspension of trading in the financial asset due to financial difficulties;

The Group considers exposures classified in Stage 3 as credit impaired exposures.

“Cured exposures”: Financial assets classified in Stage 3 are considered as ”cured” and reclassified to Stage 2 or Stage 1, when none of the default criteria are present for a minimum cure period and after an expert opinion about the indicators for upgraded credit quality of the exposure.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

e. Determination and modelling of risk parameters

The main risk parameters affecting the size of the ECLs are:

- Probability of Default (PD) – The probability of a counterparty not complying with contract clauses related to debt repayment. For each individual portfolio of collectively assessed exposures, the Group maintains historical information on the migration of exposures from Stage 1 or respectively Stage 2 to Stage 3 ("default") for a 12-month period. The Group analyses the proportion between loans that were regular at the beginning of the period and are defaulted at the end of the period, compared to the total loan portfolio at the beginning of the period.

The value of 12M PD is determined on the basis of observed deterioration rates and is calculated as a moving average over a period of at least 2 years. For the retail consumer and mortgage loan portfolios formed, the Group applies a rescue-rate model that adjusts the value of 12m PD and reflects the long-term probability of defaulted exposures to restore their performing status.

For exposures that are individually measured, the value of the 12m PD is determined depending on the assigned credit rating according to an internal model. Data on the changes in the borrowers' rating over a one-year horizon is aggregated into transaction matrices, and a 12-m PD is calculated for each rating scale depending on the number of default cases found. The Group adjusts the estimated historical values of 12m PD to reflect the current or expected economic conditions that may differ from those during the historical periods analyzed. The chosen model for reflecting the macroeconomic context is essentially macroeconomic forecasting (result of 3 macroeconomic scenarios - conservative / baseline / optimistic) and linking macroeconomic forecasts to the Group's key parameters / estimated probability of default with a 12-month horizon, estimated probability of default over the lifetime of the instrument). It reflects the impact of two macroeconomic parameters GDP (for business exposures) and Unemployment Rate (for retail segment).

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

Iimpact of the COVID-19 situation on the macroeconomic scenarios applied

When determining the macroeconomic scenarios, the latest up-to-date forecasts for Bulgaria, from external sources, such as the European Commission, the IMF, the BNB, the Ministry of Finance etc., have been used. Three scenarios have been modelled on this basis – optimistic, realistic and conservative, used to determine the impact, and the value of the PIT PD, respectively. The most of the external forecasts have been revised in the thired quarter of 2021 reflecting the law rates of vaccination, the moderate increase of the economy affected by the domestic demand and the strong recovery of the global economic activity. The details of the new macroeconomic scenarios used as at 31 December 2021 are presented in the table below.

Parameter	Scenario	Weight	2021	2022	2023	Following years
	Optimistic	25%	4.10%	4.60%	4.00%	3.90%
GDP growth in %	Baseline	50%	4.00%	4.10%	3.50%	3.50%
	Conservative	25%	3.50%	3.30%	3.20%	3.20%
	Optimistic	25%	5.10%	4.60%	4.40%	4.40%
Unemployment rate in %	Baseline	50%	5.20%	4.90%	4.70%	4.70%
	Conservative	25%	5.50%	5.20%	5.00%	5.00%

The high level of uncertainty of the forecasts, made by a number of analysts and the uniqueness of the crisis, “increase“ the requirements, applicable to the models developed, as the level of completeness and reliability of the reported effect, would actually be eligible for evaluation after the health and economic processes are resumed.

At this stage, the most appropriate approach for the application of extended / in-depth evaluations, related to the loan quality and impairments, is that of the complex reflecting of the:

- quarterly forecasts on the development of the economies – using the forecasts in a horizon of 1 from external sources;.
- Monitoring and analysis of the level of impact on the various industries and evaluation/transfer of the potential impact on sub-portfolio and/or selected exposures;
- Individual assessments for significant exposures, based on the current financial information, changes in the indebtedness, level of impact of the crisis on the business, suppliers and clients.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

Definition of default: The Group considers that a default occurs when the debtor is past due for more than 90 days and/or there are other material breaches of the terms of the contract and the debtor is unlikely to repay his obligations without action by the Group (e.g. restructuring measures, sale of collateral, etc.)

- Exposure at Default (EAD) – potential exposure at the time of default. The level of exposure at default is determined individually for each loan depending the type of loan, taking into account both the amount of debt and the agreed undrawn amounts according to the expectation of future drawdown
- Loss Given Default LGD – ratio of the exposure loss due to default of the counterparty to the amount of exposure at default. To determine the LGD on unsecured loans, the Group calculates the potential loss that would arise if an exposure goes into default and the only source for collecting the receivable is the realization of the collateral. The loss is measured as the difference between the exposure at default (EAD) and the realizable value of the collateral and is presented as a percentage of the EAD.

LGD is determined individually for each exposure in the loan portfolio, depending on its collateral and regardless of whether the probability of default is assessed on an individual or collective basis. Untill 31 December 2018 the LGD for unsecured loans was considered to be 100%, as no sufficient historical information was available. In 2019 the models for calculating the ECL were further developed and extended. As a result at 31 December 2019, to determine the LGD parameter for unsecured loans (consumer loans and credit cards) the Group applies a statistical model for the determination of the recovery rate in case of loss (1-LGL), which calculates the portion that can be collected after the loan cannot be rescued. The recovery rate is that part of EAD for loans considered loss, that could be collected after the exposure is classified as loss. The exposure is classified as loss after passage of defined cure period with no positive development or when written off. The LGL parameter is calculated based on the observed recoveries depending on the product type (e.g. credit card, standard loan, overdraft), and the measured ratio is assumed as the expected LGL value in a given portfolio at a given time in the business cycle by the formula

$$LGL = 1 - \frac{\sum_{\alpha \in A} \frac{R_{\alpha,t(\alpha)}}{(1+r_\alpha)^{t(\alpha)-T}}}{\sum_{\alpha \in A} \frac{L_{\alpha,t(\alpha)}}{(1+r_\alpha)^{t(\alpha)-T}}},$$

Where: A is the range of loss exposures in a particular segment
$\alpha \in A$ the number of the exposures in A
T – days in arrear of the exposure in the month of default
$R_{\alpha,i(\alpha)}$ is the refunded amount for the exposure for the last 12 months,
$L_{\alpha,t(\alpha)}$ is the amount due on the loan at the beginning of the period,
$t(\alpha)$ is the overdue of the exposure at the beginning of the period

The recovery rates thus obtained are applied on a collective basis, depending on the type of product in the retail segment.

32 Financial risk management (continued)

32.2. Credit risk (continued)

Impairment of financial assets (continued)

Acquired collateral

The Group's policy (mainly the Bank) is to determine whether the acquired asset from collateral is best to be realized by the Group or sold. Assets designated to be realized by the Group are transferred to investment property category at acquisition cost, including transaction costs. Assets that are deemed to be better immediately sold are reported in a category held for sale at their fair value at the acquisition date in accordance with the Group's policy.

Assessment of collateral

The Group seeks to use collateral, wherever possible, to reduce the risks of financial assets. Collateral may take the form of cash, securities, financial guarantees, real estate, receivables, inventories, other non-financial assets. The fair value of the collateral is measured at least initially and revalued on a revolving basis. As far as possible, the Group uses market data to measure financial assets held as collateral. Other financial assets whose market value cannot be estimated are measured using models. Non-financial collateral, such as real estate, is recognized on the basis of estimates made by independent appraisers.

f. Methods for calculation and presentation of expected credit losses by types of financial assets

The credit loss estimate is averaged, weighted for the probability of default over the life of the instrument by estimating the range of possible outcomes. Credit losses are the present value of the difference between the cash flows due under the contract and the cash flows that the Bank expects to receive in practice, taking into account the amounts and when they are expected to be received over time. When measuring the expected cash flows, account shall also be taken of the flow of collateral realization and other credit facilities that are an integral part of the contract. For the purpose of determining the expected credit losses, the difference between contractual and expected cash flows is discounted using the initial effective interest rate on the transaction or the credit risk-adjusted effective interest rate for purchased or initially created financial assets with credit impairment. The change in the loss adjustment is recognized as a result of impairment in profit or loss for the period.

For financial instruments measured at amortized cost such as loans and debt securities, the cumulative allowance reduces the carrying amount of the instrument in the statement of financial position. For debt instruments measured at fair value in other comprehensive income, the expected credit loss is part of the negative change in the fair value due to increased credit risk. These assets continue to be reported at fair value in the statement of financial position and the accumulated loss adjustment is reported in the statement of comprehensive income. Upon subsequent deregistration of the instrument, the cumulative adjustment is recognized in the profit or loss for the period.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to banks

The following tables provide information on the credit quality and the maximum exposure to credit risk for exposures with banks as at 31 December 2021 and 31 December 2020, according to the Group's internal risk classification (mainly the Bank). The amounts presented reflect the change in the gross carrying amounts and the impairment allowance during the reporting period.

Changes in gross carrying amount	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2021	28,112	-	-	28,112
New assets	63,725	-	-	63,725
Amounts paid	(5,968)	-	-	(5,968)
Transfer between stages	-	-	-	-
Amount as at 31 December 2021	**85,869**	**-**	**-**	**85,869**

Changes in gross carrying amount	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2020	76,899	-	-	76,899
New assets	449	-	-	449
Amounts paid	(49,236)	-	-	(49,236)
Transfer between stages	-	-	-	-
Amount as at 31 December 2020	**28,112**	**-**	**-**	**28,112**

Changes in the impairment allowance	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2021	30	-	-	30
New assets	2	-	-	2
Paid assets	(30)	-	-	(30)
Transfer between stages	-	-	-	-
Amount as at 31 December 2021	**2**	**-**	**-**	**2**

Changes in the impairment allowance	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2020	40	-	-	40
New assets	12	-	-	12
Paid assets	(22)	-	-	(22)
Transfer between stages	-	-	-	-
Amount as at 31 December 2020	**30**	**-**	**-**	**30**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers

The following tables provide information on the credit quality and the maximum exposure to credit risk for exposures to legal entities and individuals as at 31 December 2021 and 31 December 2020, according to the Group's internal risk classification (valid for the Bank and BACB Finance EAD). The amounts presented reflect the amortised cost of the exposures before impairment allowance and the change in the amortised cost and the impairment allowance during the reporting period.

The credit quality of the portfolio of loans that are neither overdue, nor impaired is assessed on the basis of the Group's internal risk rating classification methodology. A brief explanation of the allocation classes of loans that are neither overdue, nor impaired:

High class	Performing exposures with PD from 0.04% to 0.50%
Medium class	Performing exposures with PD from 0.50% to 12.00%
Low class	Performing exposures with PD from 12.00% to 29.50%

The Groups reports as impaired the exposures that are classified in Stage 3. Loans overdue up to 90 days are not considered impaired unless there is other objective evidence of impairment as at the reporting date. Such loans are reported in the statement as overdue but not impaired.

Business Exposures

Gross carrying amount as of 31.12.2021	Stage 1	Stage 2	Stage 3	TOTAL
1. Neither past due nor impaired				
1.1. Individually assessed	319,032	25,482	-	344,514
High class	*22,113*	*115*	-	*22,228*
Medium class	*290,184*	*9,885*	-	*300,069*
Low class	*6,735*	*15,482*	-	*22,217*
1.2. Collectively assessed	34,951	799		35,750
2. Past due not impaired				
2.1. Individually assessed	41,490	15,549	-	57,039
2.2. Collectively assessed	2,311	897	-	3,208
3. Impaired - individually assessed	-	-	86,178	86,178
TOTAL	**397,784**	**42,727**	**86,178**	**526,689**

Gross carrying amount as of 31.12.2020	Stage 1	Stage 2	Stage 3	TOTAL
1. Neither past due nor impaired				
1.1. Individually assessed	326,230	27,339	-	353,569
High class	*38,542*	*0*	-	*38,542*
Medium class	*287,169*	*9,067*	-	*296,236*
Low class	*519*	*18,272*	-	*18,791*
1.2. Collectively assessed	32,452	2,235		34,687
2. Past due not impaired				
2.1. Individually assessed	7,194	16,028	-	23,222
2.2. Collectively assessed	3,191	1,372	-	4,563
3. Impaired - individually assessed	-	-	107,718	107,718
TOTAL	**369,067**	**46,974**	**107,718**	**523,759**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)
32.2. Credit risk (continued)
Quality of loans and advances to customers (continued)

Business Exposures (continued)

Changes in the gross carrying amount in 2021	Stage1	Stage2	Stage3	TOTAL
Amounts at 1 January 2021	369,067	46,974	107,718	523,759
New assets originated	112,362	1,055	2,134	115,551
Paid exposures	(80,429)	(5,635)	(13,805)	(99,869)
Transfers to Stage 1	10,522	(10,305)	(217)	-
Transfers to Stage 2	(12,521)	16,654	(4,133)	-
Transfers to Stage 3	(1,217)	(6,016)	7,233	-
Amounts written off	-	-	(12,752)	(12,752)
Amounts at 31 December 2021	**397,784**	**42,727**	**86,178**	**526,689**

Changes in the gross carrying amount in 2020	Stage 1	Stage 2	Stage 3	TOTAL
Amounts at 1 January 2020	355,911	33,233	109,198	498,342
New assets originated	112,309	6,390	2,557	121,256
Paid exposures	(69,110)	(4,914)	(15,277)	(89,301)
Transfers to Stage 1	1,344	(1,250)	(94)	-
Transfers to Stage 2	(28,499)	37,155	(8,656)	-
Transfers to Stage 3	(2,888)	(23,640)	26,528	-
Amounts written off	-	-	(6,538)	(6,538)
Amounts at 31 December 2020	**369,067**	**46,974**	**107,718**	**523,759**

Changes in the impairment allowance in 2021	Stage1	Stage2	Stage3	TOTAL
Amounts at 1 January 2021	1,770	583	37,763	40,116
New assets originated	929	303	2,737	3,969
Paid exposures	(858)	(242)	(341)	(1,441)
Transfers to Stage 1	147	(141)	(6)	-
Transfers to Stage 2	(24)	30	(6)	-
Transfers to Stage 3	(2)	(14)	16	-
Amounts written off	-	-	(12,752)	(12,752)
Amounts at 31 December 2021	**1,962**	**519**	**27,411**	**29,892**

Changes in the impairment allowance in 2020	Stage 1	Stage 2	Stage 3	TOTAL
Amounts at 1 January 2020	741	717	42,244	43,702
New assets originated	1,507	422	2,848	4,777
Paid exposures	(283)	(401)	(1,141)	(1,825)
Transfers to Stage 1	4	(4)	-	-
Transfers to Stage 2	(180)	546	(366)	-
Transfers to Stage 3	(19)	(697)	716	-
Amounts written off	-	-	(6,538)	(6,538)
Amounts at 31 December 2020	**1,770**	**583**	**37,763**	**40,116**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers (continued)

Mortgage loans to individuals

Gross carrying amount as of 31.12.2021	Stage1	Stage2	Stage3	TOTAL
Neither past due nor impaired-Collectively assessed	101,765	372	-	102,137
Past due not impaired-collectively assessed	3,075	1,030	-	4,105
Impaired - individually assessed	-	-	927	927
TOTAL	**104,840**	**1,402**	**927**	**107,169**

Gross carrying amount as of 31.12.2020	Stage 1	Stage 2	Stage 3	TOTAL
Neither past due nor impaired-Collectively assessed	68,691	576	-	69,267
Past due not impaired-Collectively assessed	3,716	626	-	4,342
Impaired - individually assessed	-	-	1,715	1,715
TOTAL	**72,407**	**1,202**	**1,715**	**75,324**

Changes in the gross carrying amount in 2021	Stage1	Stage2	Stage3	TOTAL
Amounts at 1 January 2021	72,407	1,202	1,715	75,324
New assets originated	43,053	190	17	43,260
Paid exposures	(10,610)	(62)	(743)	(11,415)
Transfers to Stage 1	937	(893)	(44)	-
Transfers to Stage 2	(924)	1,132	(208)	-
Transfers to Stage 3	(23)	(167)	190	-
Amounts written off	-	-	-	-
Amounts at 31 December 2021	**104,840**	**1,402**	**927**	**107,169**

Changes in the gross carrying amount in 2020	Stage 1	Stage 2	Stage 3	TOTAL
Amounts at 1 January 2020	43,136	1,066	1,358	45,560
New assets originated	35,146	3	20	35,169
Paid exposures	(5,226)	(57)	(122)	(5,405)
Transfers to Stage 1	299	(293)	(6)	-
Transfers to Stage 2	(846)	921	(75)	-
Transfers to Stage 3	(102)	(438)	540	-
Amounts written off	-	-	-	-
Amounts at 31 December 2020	**72,407**	**1,202**	**1,715**	**75,324**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers (continued)

Mortgage loans to individuals (continued)

Changes in the impairment allowance in 2021	Stage1	Stage2	Stage3	TOTAL
Amounts at 1 January 2021	113	0	247	360
New assets originated	21	0	74	95
Paid exposures	(103)	0	(16)	(119)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Amounts at 31 December 2021	**31**	**0**	**305**	**336**

Changes in the impairment allowance in 2020	Stage 1	Stage 2	Stage 3	TOTAL
Amounts at 1 January 2019	47	-	237	284
New assets originated	76	-	13	89
Paid exposures	(10)	-	(3)	(13)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Amounts at 31 December 2020	**113**	**-**	**247**	**360**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers (continued)

Consumer loans to individuals

Gross carrying amount as of 31.12.2021	Stage1	Stage2	Stage3	TOTAL
Neither past due nor impaired-Collectively assessed	32,148	33	-	32,181
Past due not impaired-Collectively assessed	1,819	501	-	2,320
Impaired - Collectively assessed	-	-	3,450	3,450
TOTAL	**33,967**	**534**	**3,450**	**37,951**

Gross carrying amount as of 31.12.2020	Stage 1	Stage 2	Stage 3	TOTAL
Neither past due nor impaired-Collectively assessed	26,413	85	-	26,498
Past due not impaired-Collectively assessed	1,842	765	-	2,607
Impaired - Collectively assessed	-	-	2,462	2,462
TOTAL	**28,255**	**850**	**2,462**	**31,567**

Changes in the gross carrying amount in 2021	Stage1	Stage2	Stage3	TOTAL
Amounts at 1 January 2021	28,255	850	2,462	31,567
New assets originated	16,745	76	423	17,244
Paid exposures	(10,596)	(121)	(127)	(10,844)
Transfers to Stage 1	355	(306)	(49)	-
Transfers to Stage 2	(412)	446	(34)	-
Transfers to Stage 3	(380)	(411)	791	-
Amounts written off	-	-	(16)	(16)
Amounts at 31 December 2021	**33,967**	**534**	**3,450**	**37,951**

Changes in the gross carrying amount in 2020	Stage 1	Stage 2	Stage 3	TOTAL
Amounts at 1 January 2020	22,512	399	1,330	24,241
New assets originated	15,523	255	407	16,185
Paid exposures	(8,617)	(112)	(129)	(8,858)
Transfers to Stage 1	83	(66)	(17)	-
Transfers to Stage 2	(635)	681	(46)	-
Transfers to Stage 3	(611)	(307)	918	-
Amounts written off	-	-	(1)	(1)
Amounts at 31 December 2020	**28,255**	**850**	**2,462**	**31,567**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers (continued)

Consumer loans to individuals (continued)

Changes in the impairment allowance in 2021	Stage1	Stage2	Stage3	TOTAL
Amounts at 1 January 2021	565	387	2,156	3,108
New assets originated	418	184	918	1,520
Paid exposures	(378)	(36)	(61)	(475)
Transfers to Stage 1	173	(131)	(42)	-
Transfers to Stage 2	(13)	43	(30)	-
Transfers to Stage 3	(22)	(198)	220	-
Amounts written off	-	-	(16)	(16)
Amounts at 31 December 2021	**743**	**249**	**3,145**	**4,137**

Changes in the impairment allowance in 2020	Stage 1	Stage 2	Stage 3	TOTAL
Amounts at 1 January 2020	346	174	1,083	1,603
New assets originated	354	347	1,044	1,745
Paid exposures	(138)	(28)	(73)	(239)
Transfers to Stage 1	43	(30)	(13)	-
Transfers to Stage 2	(16)	57	(41)	-
Transfers to Stage 3	(24)	(133)	157	-
Amounts written off	-	-	(1)	(1)
Amounts at 31 December 2020	**565**	**387**	**2,156**	**3,108**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers (continued)

Loan exposures with restructuring (forbearance) measures

The contractual terms and conditions by separate credit exposures in Group's portfolio may undergo certain changes, due to factors, such as changes in the market environment or the specific market conditions or the specific strategic objectives for attracting and retaining customers, without such factors being related to any impairment of the financial position of the debtor or his capability to repay his liabilities. Such changes are considered by the Group as "renegotiation "of the contractual terms and conditions.

In cases, when the debtor has difficulties performing its financial commitments or displays any signs of impaired financial condition, the Group (mainly the Bank) may initiate a change in the original terms and conditions of the initial agreement, by providing the debtor with discounts in order to enable him to repay his debt and to reduce the risk of non-performance. The exposures, subject of the Deferral Framework, related to the COVID-19 pandemic, are presented as forborn exposures in case the internal assessment indicates potential future longterm difficulties for the borrower.

Such changes, which the Group would not implement, should the debtor is in good financial position, are considered "restructuring", i.e. these are considered "restructuring measures" and may include:

- Extension of the contractual period by more than 2 years after the original period (more favorable terms, compared to those, that may be offered to other debtors with a similar risk profile)
- Debt reduction (complete or partial derecognition)
- Replacement of a part of the debt by property;
- Refinancing

The Group considers that the restructuring of an exposure might be an objective indicator, which requires assessing whether credit risk is significantly increased after the initial recognition. Any change in the terms of the contract for an exposure is considered by the Lending Committee, which decides whether it represents implementation of restructuring measures. In the process of monitoring the quality of the loan portfolio, the specialized body for monitoring, assessment, classification and provisioning of risk exposures should review and analyze received information for modification of the contractual conditions on specific exposures and shall decide on the respective risk classification.

The following tables provide information on credit exposures restructured on 31 December 2021 and 2020 respectively:

	31 December 2021			
	Corporate		Individuals	
	EUR' 000	*Number*	*EUR' 000*	*Number*
Neither past due nor impaired	13,670	14	167	10
Past due but not impaired	402	2	99	9
Impaired loans	60,239	61	427	31
Total before impairment	74,311	77	693	50
Less: ECL allowance	(15,415)		(185)	
Restructures loans, net	**58,896**		**508**	

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Quality of loans and advances to customers (continued)

	31 December 2020			
	Corporate		Individuals	
	EUR' 000	*Number*	*EUR' 000*	*Number*
Neither past due nor impaired	5,546	9	653	13
Past due but not impaired	11,149	17	61	2
Impaired loans	90,186	100	387	31
Total before impairment	106,881	126	1,101	46
Less: impairment allowance	(17,579)		(139)	
Restructures loans, net	**89,302**		**962**	

Financial guarantees and letter of credits (LC) issued

As at 31 December 2021 the Group issued financial guarantees with a total nominal value of EUR 15,596 thousand (2020: EUR 10,319 thousand). All exposures under issued guarantees are to legal entities.

Maximum credit exposure on issued guarantees and LC at 31.12.2021	Stage1	Stage2	Stage3	TOTAL
1. Neither past due nor impaired				
1.1. Individually assessed	13,723	-	-	13,723
High class	*2,091*	-	-	*2,091*
Medium class	*11,632*	-	-	*11,632*
Low class	-	-	-	*(1)*
1.2.Collectively assessed	1,864	-	-	1,864
2. Past due not impaired	-	-	-	-
3.Impaired	-	-	9	9
TOTAL	**15,587**	**-**	**9**	**15,596**

Maximum credit exposure on issued guarantees at 31.12.2020	Stage1	Stage2	Stage3	TOTAL
1. Neither past due nor impaired				
1.1. Individually assessed	7,287	67	-	7,354
High class	*1,497*	-	-	*1,497*
Medium class	*5,008*	-	-	*5,008*
Low class	*782*	*67*	-	*848*
1.2.Collectively assessed	2,231	-	-	2,231
2. Past due not impaired	-	-	-	-
3.Impaired	-	-	734	734
TOTAL	**9,518**	**67**	**734**	**10,319**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)
Quality of loans and advances to customers (continued)

Change in maximum credit exposure on issued guarantees and LC in 2021	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2021	9,518	67	734	10,319
New guarantees issued	11,309	-	-	11,309
Matured guarantees	(5,240)	(67)	(725)	(6,032)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Amounts as at 31 December 2021	**15,587**	**-**	**9**	**15,596**

Change in maximum credit exposure on issued guarantees and LC in 2020	Stage 1	Stage 2	Stage 3	TOTAL
Amount as at 1 January 2020	17,465	457	-	17,922
New guarantees issued	4,335	61	-	4,396
Matured guarantees	(11,420)	(579)	-	(11,999)
Transfers between stages	(862)	128	734	-
Amounts written off	-	-	-	-
Amounts as at 31 December 2020	**9,518**	**67**	**734**	**10,319**

Change in the impairment allowance on issued guarantees and LC in 2021	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2021	4	-	62	66
New guarantees issued	6	-	-	6
Matured guarantees	(1)	-	(62)	(63)
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Amounts as at 31 December 2021	**9**	**-**	**-**	**9**

Change in the impairment allowance on issued guarantees and LC in 2020	Stage1	Stage2	Stage3	TOTAL
Amount as at 1 January 2020	4	-	-	4
New guarantees issued	-	-	62	62
Matured guarantees	-	-	-	-
Transfers between stages	-	-	-	-
Amounts written off	-	-	-	-
Amounts as at 31 December 2020	**4**	**-**	**62**	**66**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.2. Credit risk (continued)

Analysis, based on the credit rating of the financial assets

The rating category of the debtor is one of the main aspects of the "price", which is to be paid in order to overcome a credit risk. The Group has specified in the table below the agencies and the respective ratings of its financial assets at net carrying value:

2021

Credit rating	Agency	Balances with the Central Bank	Loans and advances to banks	Financial assets at FVTPL	Financial assets at FVOCI	Debt instruments at amortised cost
AA+	S&P	-	-	-	-	13,284
Aa3	Moody's	-	-	515	-	-
A3	Moody's	-	154	-	-	-
A2	Moody's		203	-	-	-
BBB+	Fitch	-	2,861	-	-	-
BBB	Fitch	231,971	26,172	-	33,243	23,740
BBB	BACR	-	56,477	-	-	-
Ba1	Moody's	-	-	-	1,722	-
B-	Fitch	-	-	-	979	-
Unclassified		-	-	-	4,569	-
Total		**231,971**	**85,867**	**515**	**40,513**	**37,024**

2020

Credit rating	Agency	Balances with the Central Bank	Loans and advances to banks	Financial assets at FVTPL	Financial assets at FVOCI	Debt instruments at amortised cost
AA+	S&P	0	0	0	0	8,218
AA-	S&P	0	0	1,018	0	0
A-	S&P	0	3,058	0	0	0
BBB	Fitch	199,469	25,018	0	24,614	10,019
BBB-	Fitch	0	0	0	0	1,077
Baa1	Moody's	0	4	0	0	0
BB-	Fitch	0	0	0	1,702	0
B-	Fitch	0	0	0	982	0
Unclassified		0	2	0	3,088	0
Total		**199,469**	**28,082**	**1,018**	**30,386**	**19,314**

32 Financial risk management (continued)

32.2. Credit risk (continued)

Geographical concentrations of assets, liabilities and off-balance sheet items

The Group's operations are concentrated primarily in Bulgaria. As of 31 December 2021, there are limited exposures to other countries as placements with foreign banks in the amount of EUR 3,219 thousands (2020: 4,342 thousands) and investments in government bonds as follows:

- EUR 1,839 thousands (2020: 1,077 thousands) - Croatia government bonds
- EUR 13,297 thousands (2020: 8,148 thousands) - USA government bonds .

32.3. Market risk

The Group is exposed to different market risks which have main impact on the activity of the Bank and to insignificant extent to the other Group companies. The market risks are associated with the risk of adverse effects of the changes in the prevailing market conditions on the financial position of the Group. Market risks arise in relation to the Group's positions in interest rate, foreign exchange, equity and other financial instruments that are, to some extent, dependent on the changes in the general or specific market conditions such as changes in interest rates, credit margins, foreign exchange rates, equity instruments prices and the like. The Group has developed and established policies and procedures to identify, manage and control the levels of risk to which it is exposed during operations.

The policies and procedures for managing market risk are approved by the Management Board of the Bank. The main objective of the risk policy is to impose clearly defined parameters on the Group's operations to adequately limit the exposure to different risks. The Group estimates the market risk of its open exposures and the maximum losses expected based upon a number of assumptions for various changes in market conditions. The internal risk management systems of the Group evolve with the growth of the Group's operations to ensure maximum control on each risk category. For the other Group companies the responsible employees follow the risk parameters but their exposure to market risk is insignificant.

32.3.1. Exchange rate risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group operates in Euro, US dollars, Leva and occasionally in GBP and Swiss Francs. It has relatively limited foreign exchange exposure because since 1997, the Lev has been pegged to the Deutsche mark and, subsequently to the Euro through a currency-board system. Compliance with foreign exchange limits is monitored on an on-going basis by the Markets and Liquidity Department of the Bank and is reported to the ALCO on a monthly basis.

The exchange rate risk management policy aims to maintain an open US dollar position that is as close as practicable to neutral by attempting to match the amounts and time limits of its liabilities denominated in USD with its receivables denominated in that currency. The limit for overnight maximum open foreign exchange positions in customer transactions is EUR 100,000. Due to the currency board arrangement, there is no limit for the position in EUR. In special circumstances, the above limits for open positions may be exceeded with the approval of the Executive Directors. In the course of its operations, the Group may conclude short-term foreign exchange swaps to manage its currency flows and as an instrument to reduce the cost of borrowed funds in some of the currencies concerned, taking advantage of their existing differences in interest rates. As at 31 December 2021 and 31 December 2020 there are no open foreign currency swaps. Except for the Bank, the other Group companies are not exposed to significant currency risk.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.3.1. Exchange rate risk (continued)

The information about the Group's exposure in the different currencies at 31 December 2021 and 2020 is presented in the tables below:

31 December 2021	USD	EUR	BGN	Other	Total
Cash and balances with the Central Bank	952	73,818	163,146	143	238,059
Loans and advances to banks	35,949	48,592	1,289	37	85,867
Loans and advances to customers	29,873	246,171	361,400	-	637,444
Financial assets at FVTPL	515	-	-	-	515
Debt instruments at FVOCI	-	23,312	15,108	-	38,420
Equity instruments at FVOCI	-	-	2,093	-	2,093
Debt instruments at amortised cost	13,283	23,741	-	-	37,024
Investment properties	-	-	52,938	-	52,938
Tangible and intangible assets	-	-	9,794	-	9,794
Investments in joint ventures	-	-	138	-	138
Other financial assets	-	361	1,468	-	1,829
Other non-financial assets	-	-	20,944	-	20,944
Total assets	**80,572**	**415,995**	**628,318**	**180**	**1,125,065**
Deposits from banks	-	37	58	-	95
Deposits from customers	77,820	320,439	577,445	111	975,815
Other borrowed funds	-	8,760	7,376	-	16,136
Other financial liabilities	3,004	2,804	6,455	17	12,280
Other non-financial liabilities	10	455	2,029	-	2,494
Total liabilities	**80,834**	**332,495**	**593,363**	**128**	**1,006,820**
Net foreign currency gap	**(262)**	**83,500**	**34,955**	**52**	**118,245**
Foreign currency spot contracts	**(106)**	**35,106**	**(35,000)**	**-**	**-**
Net foreign currency gap	**(368)**	**118,606**	**(45)**	**52**	

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.3.1. Exchange rate risk (continued)

31 December 2020	USD	EUR	BGN	Other	Total
Cash and balances with the Central Bank	1,044	91,733	111,869	64	204,710
Loans and advances to banks	22,369	2,929	1,285	1,499	28,082
Loans and advances to customers	32,781	246,833	307,452	-	587,066
Financial assets at FVTPL	1,018	-	-	-	1,018
Debt instruments at FVOCI	-	15,814	12,810	-	28,624
Equity instruments at FVOCI	-	-	1,762	-	1,762
Investment properties	-	-	50,517	-	50,517
Debt instruments at amortised cost	8,145	11,169	0	-	19,314
Tangible and intangible assets	-	-	8,787	-	8,787
Investments in joint ventures	-	-	185	-	185
Other financial assets	-	1,999	461	-	2,460
Other non-financial assets	-	-	23,178	-	23,178
Total assets	**65,357**	**370,477**	**518,306**	**1,563**	**955,703**
Deposits from customers	64,006	326,855	423,151	1,530	815,542
Other borrowed funds	-	10,011	9,485	-	19,496
Other financial liabilities	505	3,664	4,484	3	8,656
Other non-financial liabilities	4	1,414	1,512	-	2,930
Total liabilities	**64,515**	**341,944**	**438,632**	**1,533**	**846,624**
Net foreign currency gap	**842**	**28,533**	**79,674**	**30**	**109,079**
Foreign currency spot contracts	**(106)**	**35,106**	**(35,000)**	**-**	**-**
Net foreign currency gap	**736**	**63,639**	**44,674**	**30**	

The potential negative effect of unfavorable exchange rate changes is immaterial given that the open position in USD is about 0.25% (2020: 0.50%) of the capital base as at 31 December 2021. According to the definition of the currency board, effective in Bulgaria since 1997, the exchange rate BGN/EUR is fixed and the positions in BGN and EUR are not considered sensitive to exchange rate fluctuations.

32 Financial risk management (continued)

32.3.2. Interest rate risk

The interest rate risk relates to the potentially adverse impact of interest rate fluctuations on Group's net income and equity. The applied policy is to reduce the interest rate risk by extending floating rate loans combined with fixed interest rate floor in order to limit the potentially negative impact as a result of non-parallel movements in interest rates for the assets or liabilities. Additionally, the Group charges pre-payment penalties as a percentage of the principal balance outstanding, in order to limit the interest rate risk, reducing the possible early repayment of business loans (granted to small and medium-sized enterprises, corporate clients and municipalities). This, however, does not apply to the granted consumer and mortgage loans to individuals, where the provisions of the Consumer Loans Act and the Consumer Loans Related to Immovable Property Act apply and pre-payment penalties are charged, as required by law.

The Group does not trade in derivatives on interest rate. This policy means that the risk that the Group may suffer significant losses in case of major fluctuations of the market interest levels is relatively mitigated.

The Group's interest rate position is monitored and managed by the Markets and Liquidity Department and Risk Management Directorate and is reported to the ALCO of the Bank on a monthly basis. The ALCO takes an integrated view of the interest rate risk across all of the Group's banking operations and activities as for the other Group companies where applicable and based on the specificity of their business activity. The Risk Management Department carries out independent monitoring on the internal limits imposed on the level of the interest risk in the banking portfolio, applies stress scenarios for the purposes of the internal capital assessment and respective measuring of the interest risk in banking portfolio, and prepares quarterly reports to the management.

To refine measurement and apply advanced approaches, since 2019 the Group (through the Bank) has applied the methodology defined in the Guidelines on interest rate risk management arising from non-trading portfolio activities issued by EBA and the Principles on interest rate risk management and supervision published by the Basel Committee on Banking Supervision, which calculates open interest positions at time intervals and measures the effect of changes in interest rates as a percentage of the capital. According to this model, the Group calculates a total weighted position for the entire bank portfolio and measures the effect of a change in interest rates as a percentage of the capital. BACB has set an internal limit of 10% for the maximum effect of the applied standardized scenarios for interest rate shock on capital. The significant changes introduced by the Guidelines are mainly related to:

- Measurement of interest rate risk - the new points are related to the treatment of balances and interest flows from demand deposits, the treatment of fixed-term deposits with risk of early withdrawal, the modelling of cash flows on non-performing loans;
- Standardized interest rate shock scenarios - six interest rate scenarios for measuring the Economic Value of Equity (EVE) are introduced, with defined interest rate shock levels and methods of application covering parallel and non-parallel interest rate risks;
- Economic Value of Equity (EVE) - the obligatory calculation of the EVE is introduced, as in the case of interest rate shocks the emphasis is on the negative changes and the positive changes are weighed with a weighting of 50%, and the negative ones are considered in full;

As at 31 December 2020, the maximum effect is reported in a parallel shock of interest rate increase (+200 b.p. for EUR and USD and 250 b.p. for BGN) amounting to 5.8% of the capital base (2020: 4.4%).

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.3.2. Interest rate risk (continued)

Sensitivity of the assets and liabilities

The risk of a possible negative change of the net interest income and the financial results, is measured through analysis of defined interest scenarios for within one year period. The Group has performed an analysis of its sensitivity to a possible change in the interest rates as of 31 December 2021 and 31 December 2020. The Group has estimated the effect on profit or loss, taking into account changes in interest rates of all interest-bearing assets and liabilities within 1 year of the reporting date. As at 31 December 2021, the estimated effect would be approximately 2.7 mln EUR (2020: 3.7 mln.EUR)

Information on interest rate change sensitivity by periods is set out in the tables below. It includes Group's assets and liabilities at their balance-sheet value, categorized either by maturity date or by date of the agreed change in the interest rates (whichever is earlier).

31 December 2021	On demand up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No interest bearing	Total
Cash and balances with the Central Bank	-	-	-	-	-	238,059	238,059
Loans and advances to banks	81,653	-	-	-	-	4,214	85,867
Loans and advances to customers	416,507	196,706	21,013	2,900	318		637,444
Financial assets at FVTPL	-	-	-	-	-	515	515
Debt instruments at FVOCI	16,949	52	4,140	14,007	3,272	2,093	40,513
Debt instruments at amortised cost	21,645	1,041	184	14,154	-		37,024
Investment properties	-	-	-	-	-	52,938	52,938
Tangible and intangible assets	-	-	-	-	-	9,794	9,794
Investments in joint ventures	-	-	-	-	-	138	138
Other financial assets	-	-	-	-	-	1,829	1,829
Other non-financial assets	-	-	-	-	-	20,944	20,944
Total assets	**536,754**	**197,799**	**25,337**	**31,061**	**3,590**	**330,524**	**1,125,065**
Deposits from banks	95	-	-	-	-	-	95
Deposits from customers	740,734	78,549	107,347	22,991	125	26,069	975,815
Other borrowed funds	16,136	-	-	-	-	-	16,136
Other financial liabilities	289	270	501	2,950	171	8,099	12,280
Other non-financial liabilities	-	-	-	-	-	2,494	2,494
Total liabilities	**757,254**	**78,819**	**107,848**	**25,941**	**296**	**36,662**	**1,006,820**
Interest Sensitivity Gap	**(220,500)**	**118,980**	**(82,511)**	**5,120**	**3,294**	**293,862**	**118,245**

Loans and advances to banks represented in column "No interest bearing" in the table above include current accounts with zero interest rate.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.3.2. Interest rate risk (continued)

Sensitivity of the assets and liabilities (continued)

31 December 2020	On demand up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No interest bearing	Total
Cash and balances with the Central Bank	-	-	-	-	-	204,710	204,710
Loans and advances to banks	25,209					2,873	28,082
Loans and advances to customers	393,275	170,688	18,010	4,565	528	-	587,066
Financial assets at FVTPL	-	-	-	-	-	1,018	1,018
Debt instruments at FVOCI	1,651	33	2,906	21,693	2,341	1,762	30,386
Debt instruments at amortised cost	8,139		182	10,993	-	-	19,314
Investment properties	-	-	-	-	-	50,517	50,517
Tangible and intangible assets	-	-	-	-	-	8,787	8,787
Investments in joint ventures	-	-	-	-	-	185	185
Other financial assets	-	-	-	-	-	2,460	2,460
Other non-financial assets	-	-	-	-	-	23,178	23,178
Total assets	**428,274**	**170,721**	**21,098**	**37,251**	**2,869**	**295,490**	**955,703**
Deposits from customers	555,187	70,235	132,866	33,973	84	23,197	815,542
Other borrowed funds	19,496	-	-	-	-	-	19,496
Other financial liabilities	284	275	500	1,305	319	5,973	8,656
Other non-financial liabilities	-	-	-	-	-	2,930	2,930
Total liabilities	**574,967**	**70,510**	**133,366**	**35,278**	**403**	**32,100**	**846,624**
Interest Sensitivity Gap	**(146,693)**	**100,211**	**(112,268)**	**1,973**	**2,466**	**263,390**	**109,079**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.3.2. Interest rate risk (continued)

The following table summarizes the information on the effective interest rate by financial instruments as of 31 December 2021 and 2020. The interest rates are calculated based on information on the average daily balances by items of assets and liabilities for the respective period and the recognized interest income by these financial instruments.

Assets	**2021**	**2020**
Loans and advances to banks	0.01%	0.17%
Loans and advances to customers	4.06%	4.31%
Debt instruments at FVOCI	1.01%	1.42%
Financial assets at amortised cost	0.47%	0.88%
Liabilities		
Deposits from banks	0.01%	0.0%
Deposits from customers	0.15%	0.29%
Other borrowed funds	1.38%	1.51%
Liese liabilities	1.39%	1.56%

32.4. Liquidity risk

The liquidity risk refers to the risk that the Group might not have sufficient cash to meet deposit withdrawals or other financial obligations that arises from mismatches in cash flows primarily for the Bank. The Group follows a conservative liquidity management policy.

The main objectives, when managing the liquidity is to ensure the ongoing capability of the Group to meet its financial liabilities, ensure resources, corresponding to the demand of loans and achieve positive financial results from the management of its own funds and the respective borrowings. The Group's strategy and objectives in this respect are closely related to the establishment of a stable funding structure and adequate fulfillment of the liquidity standards. The liquidity management principles are, as follows:

- Centralized control of the liquidity, exercised by the liquidity management body;
- Ongoing monitoring and evaluation of the necessary finds by time periods in the future,
- Evaluation of the liquid asset adequacy of the Group;
- Diversification of the sources of financing;
- Adequate planning of the emergency actions;

The Group has adopted internal rules for determining and monitoring the liquidity buffers (primarily for the Bank) in order to maintain additional liquidity, immediately accessible in case of a liquidity shock for a certain brief period of time. The rules determine the composition of the liquidity buffer, the characteristics and regularity of the applied stress scenarios and sources of financing in the going concern scenario and the liquidity crisis scenarios.

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

The liquidity position management framework is supplemented by internal limits for ensuring adequate coverage of the borrowings by liquidity assets, regular performance of stress tests for the evaluation of the quality and the stability of the liquidity buffer as well as indicators corresponding to the changes in the regulatory framework - leverage, stable financing ratio, liquidity coverage ratio.

Treasury Department of the Bank manages the operating liquidity of the Group (of the Bank) on a daily basis and prepares periodical reports on the liquidity position and the deposit base. When applicable similar analysis is made for the liquiditiy position of the other Group companies. The reports are submitted to ALCO and are discussed monthly. Risk Management Directorate of the Bank provides independent review on the liquidity position, controls the internal and statutory liquidity limits and performs periodically stress tests in order to ensure optimal level of liquidity buffers. The results from performed analysis are presented to the Management Board.

The liquidity position of the other Group companies is followed on a regular basis by making analysis of the incoming and outgoing cash flows. This information is presented to the Management Board of the Bank.

When managing its liquid position, the Group (the Bank) uses interbank deposits only to bridge temporary funding mismatches, rather than to fund loans. Targeting optimization of its liquidity sources and higher yield earned, the Group invests in Bulgarian government securities. Investments in Bulgarian corporate bonds and shares are approved by ALCO on a case-by-case basis. The securities acquired for liquidity purposes are currently classified as “debt instruments at FVOCI".

As part of the liquidity risk management, additional internal limits were introduced by the Group (the Bank) in order to mitigate the concentration risk and reinforce the liquidity buffers. When needed the Group extends its financing sources and further stabilizes its liquidity position, by placing mortgage bonds.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

The table below summarizes the contractual maturity structure of the assets and liabilities by time periods, on a discounted basis:

31 December 2021	On demand up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with the Central Bank	238,059	-	-	-	-	238,059
Loans and advances to banks	81,770	-	-	4,097	-	85,867
Loans and advances to customers	89,030	47,453	82,749	277,323	140,889	637,444
Financial assets at FVTPL	-	-	-	-	515	515
Debt instruments at FVOCI	15,524	52	4,140	15,432	5,365	40,513
Debt instruments at amortised cost	21,644	1,042	184	14,154	-	37,024
Investment properties	3,777	91	15,947	33,123	-	52,938
Tangible and intangible assets	-	-	-	-	9,794	9,794
Investments in joint ventures	-	-	-	-	138	138
Other financial assets	1,548	41	122	118	-	1,829
Other non-financial assets	491	8,999	10,528	926	-	20,944
Total assets	**451,843**	**57,678**	**113,670**	**345,173**	**156,701**	**1,125,065**
Deposits from baks	95	-	-	-	-	95
Deposits from customers	754,524	77,572	105,575	26,048	12,096	975,815
Other borrowed funds	18	1,053	1,053	5,263	8,749	16,136
Lease liabilities	289	270	501	2,950	171	4,181
Other financial liabilities	2,160	231	1,282	506	3,920	8,099
Other non-financial liabilities	155	1,145	854	246	94	2,494
Total liabilities	**757,241**	**80,271**	**109,265**	**35,013**	**25,030**	**1,006,820**
Maturity Gap	**(305,398)**	**(22,593)**	**4,405**	**310,160**	**131,671**	**118,245**
Cumulative maturity gap	**(305,398)**	**(327,991)**	**(323,586)**	**(13,426)**	**118,245**	
Off-balance sheet liabilities and commitments						
Unutilized Commitments on loans	3,387	7,114	10,518	32,207	24	53,250
Bank guarantees	2,684	2,341	2,087	3,580	637	11,329
L/C issued	4,093	-	174	-	-	4,267
Total	**10,164**	**9,455**	**12,779**	**35,787**	**661**	**68,846**

The increased maturity gap between short-term assets and liabilities up to 3 months is a result of the lower interest rates on the deposit market. The Group (the Bank) observes and analyses on an ongoing base the trends in deposits roll on / withdrawal and measures the short-term liquidity risk, including on a daily basis. The analysis show that historicaly the retention of the resources significantly exeeds the contractual terms, thus providing in 2021 more liquid funds then real needed for gross payments.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

31 December 2020	On demand up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with the Central Bank	204,710	-	-	-	-	204,710
Loans and advances to banks	26,538	-	-	1,544	-	28,082
Loans and advances to customers	82,969	51,993	100,963	223,745	127,396	587,066
Financial assets at FVTPL					1,018	1,018
Debt instruments at FVOCI	346	245	2,906	22,998	3,891	30,386
Debt instruments at amortised cost	8,148	-	182	10,984	-	19,314
Investment properties	2,151	717	2,012	30,305	15,332	50,517
Tangible and intangible assets		-	-	-	8,787	8,787
Investments in joint ventures		-	-	-	185	185
Other financial assets	2,129	51	151	129	-	2,460
Other non-financial assets	9,471	70	2,199	11,422	16	23,178
Total assets	**336,462**	**53,076**	**108,413**	**301,127**	**156,625**	**955,703**
Deposits from customers	571,374	70,669	131,621	37,652	4,226	815,542
Other borrowed funds	22	1,053	1,053	7,368	10,000	19,496
Lease liabilities	284	275	500	1,305	319	2,683
Other financial liabilities	4,706	-	497	770	-	5,973
Other non-financial liabilities	2,074	413	188	191	64	2,930
Total liabilities	**578,460**	**72,410**	**133,859**	**47,286**	**14,609**	**846,624**
Maturity Gap	**(241,998)**	**(19,334)**	**(25,446)**	**253,841**	**142,016**	**109,079**
Cumulative maturity gap	**(241,998)**	**(261,332)**	**(286,778)**	**(32,937)**	**109,079**	
Off-balance sheet liabilities and commitments						
Unutilized Commitments on loans	7,902	7,011	7,916	11,785	12	34,626
Bank guarantees	4,177	1,189	3,794	1,059	85	10,304
L/C issued	15	-	-	-	-	15
Total	**12,094**	**8,200**	**11,710**	**12,844**	**97**	**44,945**

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

Agreed maturities of the non-discounted cash flows of the financial liabilities

The table below shows the maturity structure of the non-discounted cash flows of the Bank's financial liabilities at 31 December 2021 and 31 December 2020:

31 December 2021	On demand up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Deposits from banks	95	-	-	-	-	95
Deposits from customers	754,574	77,635	105,751	26,157	12,108	976,225
Other borrowed funds	71	1,089	1,149	5,651	8,791	16,751
Lease liabilities	289	270	501	3,049	223	4,332
Other financial liabilities	2,160	231	1,282	506	3,920	8,099
Other non-financial liabilities	155	1,145	854	246	94	2,494
Total (at the maturity date as per the contract)	**757,344**	**80,370**	**109,537**	**35,609**	**25,136**	**1,007,996**
Off-balance sheet liabilities and commitments						
Unutilized Commitments on loans	3,387	7,114	10,518	32,207	24	53,250
Bank guarantees	2,684	2,341	2,087	3,580	637	11,329
L/C issued	4,093	-	174	-	-	4,267
Total	**10,164**	**9,455**	**12,779**	**35,787**	**661**	**68,846**

31 December 2020	On demand up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Deposits from customers	571,423	70,747	132,111	37,964	4,237	816,482
Other borrowed funds	88	1,097	1,178	7,943	10,093	20,399
Lease liabilities	284	275	503	1,331	388	2,781
Other financial liabilities	4,706	-	497	770	-	5,973
Other non-financial liabilities	2,074	413	188	191	64	2,930
Total (at the maturity date as per the contract)	**578,575**	**72,532**	**134,477**	**48,199**	**14,782**	**848,565**
Off-balance sheet liabilities and commitments						
Unutilized Commitments on loans	7,902	7,011	7,916	11,785	12	34,626
Bank guarantees	4,177	1,189	3,794	1,059	85	10,304
L/C issued	15	-	-	-	-	15
Total	**12,094**	**8,200**	**11,710**	**12,844**	**97**	**44,945**

In the column "Over 5 years" for deposits from customers in the table above are indicated deposits with agreed maturity up to one year, which serve as collateral on loans with maturity over 5 years and will therefore be renewed.

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

The COVID-19 crisis and the unprecedented restrictive measures presented a real-time test and assessment of the quality of the liquidity buffer and the stability/resilience of the of the funding model. In 2020, The Bank reports liquidity ratios as LCR and NSFR that are over the minimum regulatory required and discloses these ratios according to the requirements of art.447 of Regulation 575.

Encumbered assets policy

In accordance with the Recommendation of the European Systemic Risk Board (ESRB/2012/2) regarding the financing of credit institutions, the Group (through the Bank) has developed a policy for the management of the encumbrance of assets, defining the basic principles, regarding the sources of financing, the general approach of the Group regarding the encumbrance of assets and the monitoring framework, the control mechanisms and procedures, which may ensure the timely identification of the risks, related to the encumbrance of assets and their adequate management. The policy has been approved by the Management Board of the Bank. When applicable this poly is applied in the other Group companies. According to that policy, an encumbered asset is asset, which has been openly or indirectly pledged or is the subject of a guarantee, collateralization or credit quality improvement agreement, with respect to a transaction. The encumbrance of the assets by types is, as follows:

- Cash blocked in bank accounts as collateral
- Governmental securities, used as collaterals for borrowings of budget spending entities;
- Liquidity swaps;
- Repurchase transactions;
- Loan receivables;
- Other;

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.4. Liquidity risk (continued)

The tables below present information on encumbered assets and related liabilities rising encumbrance at 31 December 2021 and 2020:

2021

Encumbered assets		Matching liabilities rising encumbrance	
Cash and balances with the Central Bank	1,499	Other liabilities	1,499
Loans and advances to banks	358	Other liabilities	358
Loans and advances to banks	3,739	Nominal value of financial guarantees	3,739
Loans and advances to customers	10,704	Other borrowed funds	16,137
Financial assets at FVOCI	6,003	Deposits from customers	4,945
Financial assets held to maturity	9,963	Deposits from customers	8,207
Total	**32,266**		**34,884**
Ratio of encumbered assets to total assets	**2.87%**		

2020

Encumbered assets		Matching liabilities rising encumbrance	
Cash and balances with the Central Bank	1,837	Other liabilities	1,837
Loans and advances to banks	266	Other liabilities	266
Loans and advances to banks	1,278	Nominal value of financial guarantees	1,278
Loans and advances to customers	16,649	Other borrowed funds	19,496
Financial assets at FVOCI	9,424	Deposits from customers	9,364
Financial assets held to maturity	10,098	Deposits from customers	10,033
Total	**39,552**		**42,273**
Ratio of encumbered assets to total assets	**4.14%**		

32 Financial risk management (continued)

32.5. Trusted assets in custody

The Group is registered as investment intermediary and performs operations for customers in accordance with the requirements of Regulation 38 of the FSC. The Bank has approved a policy with respect to fiduciary operations for customers which is elaborated on the basis of the requirements of Art.28-31 of Regulation 38 of the FSC.

32.6. Capital management

The Group is particularly focused on maintaining a capital adequacy, corresponding to its risk profile, as the bank and the companies. Tha Bank is focused on the granting of loans to small- and medium-sized businesses and retail customers in a dynamic environment. The capital management policy seeks to ensure adequate coverage of risks arising in the normal course of banking business as well as risks of unforeseen circumstances.

The Group monitors and analyses on a monthly basis its consolidated capital position and prepares quarterly reports for supervisory purposes, which are then submitted to the BNB in accordance with the regulatory requirements. Stress tests are carried out on a regular basis, reviewing the effect of the deterioration of the quality of the portfolio and/or impairment of the existing collaterals, both on the result and the equity position of the Group. The capital buffers are evaluated on a regular basis, specifying measures for their preservation and increase.

The minimum levels of capital adequacy for the banks in Bulgaria are set by *Regulation No. 575/2013*, according to which the credit institutions at any moment must meet the following capital requirements:

- a Common Equity Tier 1 capital ratio of 4,5 %;
- a Tier 1 capital ratio of 6 %;
- a total capital ratio of 8 %;

In addition, Ordinance No. 8 of the BNB on the capital buffers of banks, sets further capital buffers, which the banks must keep above the minimum capital requirements, which, as of 31 December 2021 amount to:

- protective capital buffer of 2,5% of the amount of the total risk exposure of the Bank;
- a buffer for a global systemically important institution
- a buffer for another systemically important institution
- anti-cyclical capital buffer – 0.5% of the amount of the total risk exposure of the Bank;
- systematic risk buffer – 3% of the amount of the total risk exposure of the Bank

The capital position of the Group depends on numerous factors, including the growth of its credit portfolio and earnings, regulatory capital requirements. Any change that limits the Group's ability to manage the balance sheet and capital resources effectively, including for example deterioration of the credit quality of the loan portfolio, reduction in profits as a result of additional impairment provisions, increase in risk weighted assets, delays in the disposal of certain assets may result in a decrease of the capital buffers and need of additional capital.

Historically the Group has been maintaining a capital adequacy significantly exceeding the regulatory requirements, due to the pursued policy of reinvestment of the profit and timely increase of the capital. As of 31 December 2021 the overall capital adequacy ratio amounts to 17.1% (2020: 16.6%).

Based on the terms and conditions, set out in art. 19 of *Regulation (EC) No. 575/2013* of the European Parliament and the Council, as of 31 December 2021, the Group is not subject to prudential consolidation.

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.6. Capital management (continued)

The table below contains information on the capital adequacy as of 31 December 2021 and 2020.

Capital base	**2021**	**2020**
Paid in share capital	12,624	12,624
Premium reserve	18,944	18,944
Total reserves	74,882	67,984
Unrealized gains /(losses) on financial assets available for sale	201	159
Less: Intangible assets	(854)	(897)
Less: CET1 capital elements or deductions – other	(606)	(771)
Other transitional tier one core capital adjustments	1,148	1,638
Total capital base	**106,339**	**99,681**
Total amount of risk assets	**621,333**	**600,165**

Capital requirements	**2021**	**2020**
Capital requirements for credit risk	46,427	45,081
Capital requirements for position risk	-	-
Capital requirements for currency and commodity risk	-	-
Capital requirements for operating risk	3,280	2,932
Total Capital requirements - Standardized approach	**49,707**	**48,013**
Ratios		
Total capital adequacy (%)	**17.1%**	**16.6%**
Capital adequacy of Tier 1 Capital (%)	17.1%	16.6%

All amounts are in thousands of EUR unless otherwise stated

32 Financial risk management (continued)

32.7. Operating risk

Operating risk is the risk of loss, resulting from a systematic issue, human error, fraud or external events. When the controls fail to operate efficiently, the operating risks may result in harm to the goodwill, have legal and regulatory consequences or even result in a financial loss. The Group cannot expect all the operating risks to be eliminated, but it tries to manage such risks, by means of an internal control and monitoring system, corresponding to the potential risks. The controls include efficient separation of the liabilities, obligations, accesses, permits and procedures for benchmarking, training of the personnel and evaluation processes, such as the use of internal audit.

The Group (through the Bank) has adopted internal rules for the management of the operating risk, which regulate the process of management and control of that risk. The organizational operating risk management model is based on the principle of separation of the responsibilities between the management and risk control and includes three main pillars:

- identification and management of the risks by the individual business lines;
- independent review, evaluation and reporting the risk by the operating risk management function;
- independent verification of the controls, processes and systems, utilized for the management of the operating risk by internal and/or external auditors.

33 Supplementary information

Information to be disclosed according to the regulations of Art.70 (6) of Credit Institutions Act.

The information for the Bank and its subsidiaries is presented as of 31 December 2021 and does not include consolidation eliminations:

Company	Bulgarian-American Credit Bank	BACB Finance subsidiary	BACB Trade subsidiary	PAYTECH subsidiary
Activity description	The Bank operates a full banking license for offering and performing the full scope of banking operations permitted by CIA	The company provides financial services like finance lease, trade and consumer finance using its own funds or BACB financing if needed	Financial and business consulting, trading activity and all range of business activities permitted by the law	The process of voluntary liquidation has been completed and on 17.12.2021 the entity was deregistered from the Trade register
Registered office	Sofia	Sofia	Sofia	Sofia
Annual turnover	34,854	323	20,250	-
Number of employees	352	1	1	-
Profit before taxation	10,006	241	84	(6)
Income tax accrued	981	24	9	-
Return on assets	0.8%	5.3%	0.9%	-
Government grants	none	none	none	none

** For financial institutions the turnover includes gross interest income, gross lease income, gross fees and commissions income and other operating income gross.*

34 Events after the reporting period

The war conflict started on 24 February 2022 between Russia and Ukraine, which is unfolding as at the date of these financial statements, has caused disruptions on the leading global financial markets; and the problems with supply chains that were initially caused by the COVID-19 pandemic, are expected to deteriorate even more as a result of this conflict on the territory of Ukraine. Economic sanctions have been imposed on the Russian Federation by the EU, USA and other countries. Prices of petrol, gas and other resources are expected to soar, and global inflation is expected to rise. Currently, it is difficult to anticipate the outcome of the conflict, and its long-term impact on the global economic and social developments.

According to management, the main risk for the Group relates to the impact the changed economic conditions will have on the performance and the business results of the customers in next periods. Management's assessment is that this is a non-adjusting event occurred after the end of the reporting period and accordingly, these consolodated financial statements do not contain adjustments to the value of assets, if such adjustments should be necessary, to reflect the significant increase in credit risk. Considering the dynamics of the circumstances, currently management is unable to make a reliable estimate or measurement of the possible effects of the conflict on the operations, assets and economic development of the Group. Management has undertaken measures for limiting the possible consequences on the Group's operations. As of 31 December 2021 the current value of the exposures in the loan portfolio to contractors from Russia and Ukraine is respectively EUR 552 thousands and EUR 86 thousands. The total amount of recivables from customers from Russia and Ukraine is EUR 638 housands or 0.09% of the gross loan portfolio. All of the exposures are to individual customers and are performing.

No other material events have occurred subsequently to 31 December 2021, that would require additional correction or disclosure in the consolidated financial statements of the Group for the year ended 31 December 2021.

DECLARATION

Under art. 100m, para 4 (a) of the POSA

The undersigned

1. Ilian Petrov Georgiev, Chief Executive Officer of “Bulgarian-American Credit Bank”
2. Loreta Ivanova Grigorova, Execuvite Director of “Bulgarian-American Credit Bank”
3. Katya Svetoslavova Bineva, Chief Accountant of “Bulgarian-American Credit Bank”

Hereby certify that to the best of our knowledge the attached set of Annual Audited Consolidated Financial Statements of Bulgarian-American Credit Bank AD for the year 2021, prepared in accordance with applicable accounting standards, give a true and fair view of the assets and liabilities, financial position and financial performance of Bulgarian-American Credit Bank AD and of the companies included in the consolidation.

ILIAN PETROV GEORGIEV Digitally signed by ILIAN PETROV GEORGIEV

Ilian Georgiev
Chief Executive Director

Loreta Ivanova Grigorova Digitally signed by Loreta Ivanova Grigorova

Loreta Grigorova
Executive Director

Katya Svetoslavova Bineva Digitally signed by Katya Svetoslavova Bineva

Katya Bineva
Chief Accountant

DECLARATION

Under art. 100m, para 4 (b) of the POSA

The undersigned, Ilian Petrov Georgiev, Chief Executive Officer и Loreta Ivanova Grigorova, Execuvite Director, jointy representing “Bulgarian-American Credit Bank”, hereby certify that to the best of our knowledge the attached Annual Activity Report of “Bulgarian-American Credit Bank” on consolidated basis for the year 2021 contains a truthful review of the development and results from the activity of the “Bulgarian-American Credit Bank”, as well as the condition of “Bulgarian-American Credit Bank”and the companies included in the consolidation, together with a description of the major risks and uncertainties faced thereby.

ILIAN PETROV GEORGIEV
Digitally signed by ILIAN PETROV GEORGIEV

Ilian Georgiev
Chief Executive Director

Loreta Ivanova Grigorova
Digitally signed by Loreta Ivanova Grigorova

Loreta Grigorova
Executive Director

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Independent auditors' report

To the shareholders of

BULGARIAN-AMERICAN CREDIT BANK AD

Opinion

We have audited the accompanying consolidated financial statements of BULGARIAN-AMERICAN CREDIT BANK AD and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

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

Emphasis of matter

As described in Note 3 Summary of Significant Accounting Policies, Basis of preparation and presentation of the financial statements to the consolidated financial statements, the accompanying consolidated financial statements, presented in EUR, were issued by the Group in addition to the statutory consolidated financial statements presented in BGN. We have audited and reported separately on the consolidated financial statements presented in BGN and issued our auditor's report dated 31 March 2022. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers under the requirements of IFRS 9 Financial Instruments The Group's disclosures about impairment of loans and advances to customers are included in Note 15 "Loans and advances to customers" and Note 32.2 "Credit risk" to the consolidated financial statements.	
Loans and advances to customers represent a significant part (57%) from the total assets of the Group as at 31 December 2021 with aggregate gross carrying value of EUR 671,809 thousand and accumulated loss allowance of EUR 34,365 thousand. Under the requirements of IFRS 9 "Financial instruments", the Group applies an impairment model based on expected credit loss (ECL) estimation. The application of such an impairment model leads to increased level of complexity and significant degree of	In this area, our key audit procedures included, amongst others: • We gained an understanding of the monitoring and impairment process of the Group focusing on the applied measurement and calibration methodology, the impairment model used, and the underlying key assumptions, judgements and parameters as well as any changes made therein. • We evaluated whether the Group's impairment policy and estimation

management judgment in the ECL estimations as disclosed in Note 32.2 "Credit risk". The key inputs, assumptions and related judgements in the model relate to developing significant increase of credit risk (SICR) criteria for staging of loans and advances to customers (Stage 1: Exposures with no SICR, Stage 2: Exposures with SICR but no objective evidence for impairment and Stage 3: Exposures with objective evidence for impairment), determining the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD), imputing forward looking information (FLI) of macro-economic factors considering multiple scenarios in ECLs estimations. Higher degree of estimation uncertainty is involved in calculating the ECLs for the portfolios of loans and advances to customers in Stage 1 and Stage 2 assessed for impairment collectively in view of the availability of historical data for back testing and calibrating the PD and LGD estimates. Further to this, significant management judgement is also required in calculating the ECLs for loans and advances which are assessed for impairment individually, in particular, in determining the timing and amount of the expected cash flows, probability of scenarios, including from realization of collaterals. In 2021 the social and economic consequences (including moratoria measures) from the crisis stemming from the COVID-19 pandemic increased the estimation uncertainty of the ECL measurement. The Group has addressed this by reassessing the assumptions for probability of default (PD) and enhancing its credit risk monitoring procedures to distinguish the cases/indications that are related to long-term financial difficulties of the borrowers from those that are derived from the pandemic and represent temporary liquidity difficulties.	approaches were applied consistently in line with the requirements of IFRS 9. • Further, we assessed the Group's governance over the impairment model developed, including the model documentation and the reasonableness and frequency of overlays applied. • We obtained understanding and performed walk-throughs of the Group's processes and controls related to monitoring and assessment for impairment of loans and advances to customers focusing on additional monitoring procedures introduced due to the specific circumstances of COVID 19 and on any changes as a result of the implementation of the calibration methodology. We involved our internal IT specialists to assess and test the IT general controls over these processes. • We designed and performed tests of the operating effectiveness of the controls over the monitoring and assessment for impairment of loans and advances to customers processes. • We assessed the impairment model for application consistency and continuing appropriateness in view of IFRS 9 requirements, the specifics of Group's loan portfolio and the availability of internal historical and forward-looking information. We evaluated the reasonability of SICR criteria and proper staging of loans and advances to customers. Further, we assessed for reasonableness the PD and LGD calculations by examining support for the key assumptions used and data sources, including for consideration of uncertainties stemming from COVID-19 pandemic.

Due to the significance of the recorded impairment on loans and advances to customers, their potential effect on the capital adequacy calculation as well as the high estimation uncertainty, complexity and management judgments and assumptions involved in ECL calculations under the impairment model applied under the requirements of IFRS 9, this is considered a key audit matter.	• We also analysed the appropriateness of calibration approaches applied and the reasonableness of resulting changes and effects considering our understanding of the development of the loan portfolios and the quality of available data. In addition, we tested the mathematical accuracy of the ECL calculations. • We performed analytical procedures on a disaggregated data to evaluate if the relationship in the trends in the recorded impairment expense and allowance follow the tendencies of development of the loan portfolios and reflecting the impact from the development of COVID-19 pandemic. • For a risk-based sample of loans and advances to customers from all stages that were subject to an individual impairment assessment and focusing on those with the most significant potential impact on the consolidated financial statements, we specifically assessed the Group's assumptions on the expected future cash flows, including the realizable value of collateral based on our own understanding and available market information, including the impact from the development of COVID-19 pandemic. We involved internal experts to assist us in assessing the value of realizable collateral on a sample basis. • We performed subsequent events procedures focused on the development of the sampled loans as per the previous paragraph, post balance sheet date to assess the Group's assumptions on the expected future cash flows. • We assessed the relevance and adequacy of the disclosures for the impairment of loans and advances to customers under the requirements of IFRS 9.

Estimates of fair values of non-financial assets used for fair value measurement or for impairment review purposes Information on the estimates of fair values of non-financial assets used for the purpose of valuation at fair value or for the impairment review of those assets are provided in Note 21 "Assets held for sale", Note 19 "Investment properties" and Note 30 "Fair value information" to the consolidated financial statements.	
As disclosed in Note 21 and Note 19 to the consolidated financial statements, as of 31 December 2021 the Bank reports assets held for sale of EUR 8,940 thousand and investment properties of EUR 52,938 thousand comprising real estate acquired mainly from foreclosed collaterals. The Group's accounting policy for subsequent measurement of the investment properties is under the fair value model of IAS 40. Considering the general volatility of the real estate market, the Group's management performs annual valuation of these non-financial assets in order to determine the fair value less costs to sell for assets held for sale (for their impairment testing) and the fair value of the investment properties for their subsequent valuation. The fair value estimates of investment properties and assets held for sale are determined by independent external appraisers engaged by the Group. The fair value determination is based on various valuation inputs, assumptions and approaches and are designated at Level 3 of the fair value hierarchy as per IFRS 13. The assumptions used in the fair value measurement as of 31 December 2021 are subject to high uncertainty due to the impact from COVID-19 pandemic as disclosed in Note 30 "Fair value information". As the fair valuation of the Group's non-financial assets involves high estimation uncertainty related to the fair value inputs	In this area, our audit procedures included, amongst others: • Consideration of the objectivity, independence and expertise of the external appraisers. • For a sample of investment properties and assets held for sale, we analyzed and evaluated the applied base real estate data inputs for the determination of their fair value utilizing our real estate valuation experts to assist us in the review and analysis of the applied valuation methods and the underlying key assumptions including consideration of the impact from the development of the COVID 19 pandemic, where applicable. • Involvement of our real estate valuation experts to perform relevance test to assess whether the fair value estimates of a sample of the Group's assets held for sale and investment properties fell within a range of comparable market prices for similar assets. • Assessment on the adequacy and relevance of the financial statement disclosures on the impairment testing of the Bank's assets held for sale and the fair valuation investment properties.

and assumptions, this is considered to have significant impact on the carrying amounts of the non-financial assets as well as potential impact on the capital adequacy calculation as at 31 December 2021, we have determined this matter as a key audit matter.	

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Audit Firm Ernst & Young Audit OOD, with registration number 108:

MILKA KOSTADINOVA NATCHEVA-IVANOVA

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Milka Natcheva-Ivanova

Legal Representative

Milka Kostadinova Natcheva-Ivanova

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Milka Natcheva-Ivanova

Registered Auditor in charge of the audit

Audit Firm AFA OOD, with registration number 015:

Valia Iordanova Iordanova

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VALIA IORDANOVA IORDANOVA

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Valia Iordanova

Registered Auditor in charge of the audit

Sofia, Bulgaria

31 March 2022