TOKUDA BANK AD

ANNUAL MANAGEMENT ACTIVITY REPORT,
CORPORATE GOVERNANCE STATEMENT,
INDEPENDENT AUDITORS' REPORT AND
ANNUAL FINANCIAL STATEMENTS

for year 2020

Tokuda Bank

MANAGEMENT ACTIVITY REPORT 2020

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I. Environment in which Tokuda Bank AD operated in 2020

In 2020, the world economy fell into a severe recession amid unprecedented challenges posed by COVID-19 and the restrictive measures imposed to curb the spread of the virus. Unlike previous crises (the so-called "Great Recession" of 2008 and subsequent European debt crisis), the current emergency is more exogenous. While problems in the financial sector were at the heart of the previous two crises, the reasons for the 2020 recession are not related to the economy.

The spread of COVID-19 had a strong impact on economic activity, initially in China and later worldwide. International trade contracted sharply, disrupting global value chains and markedly increasing global financial market uncertainty. The pandemic particularly adversely affected Bulgaria's main exporting partners, namely economic agents in euro area countries. The negative effects are particularly pronounced in the dynamics of final consumption, which contracted sharply in the first half of the year as a result of large-scale restrictive measures and the increased propensity to save. The lack of solvent demand and the restrictions imposed on economic activity led to a sharp decline in economic activity, especially in the services sector, shifting the real GDP growth rate into negative territory in the second quarter of 2020. Huge fiscal and monetary stimulus initiatives were launched in response to this shock, mainly aiming at compensating for the collapse in final consumption, but also at stabilising environmental factors (within reasonable scale by providing guaranteed access to liquidity and sustainable financing on favourable terms).

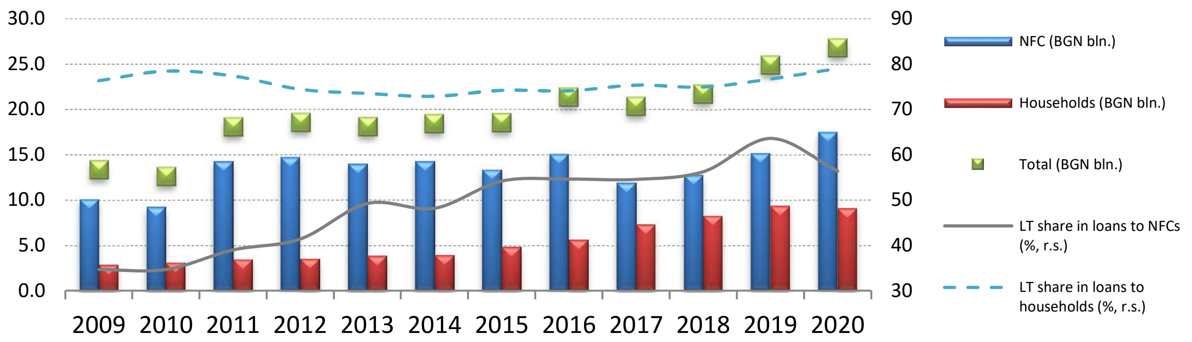
Since the beginning of the crisis, expectations about the depth and duration of the recession have mainly been influenced by the prospects of finding medical solutions against the spread of COVID-19, in particular by the possibilities of developing a vaccine. Along with the decisive and coordinated action of governments and central banks around the world, the news of progress in this area at the end of the autumn led to a gradual restoration of consumer confidence and the global business climate. Despite fluctuations in economic dynamics when a new wave of contagion emerged in the second half of 2020, moderate optimistic expectations began to prevail and this had a positive effect on the behaviour of economic agents.

The pandemic affected price dynamics. As a result of fluctuating demand, lower oil prices and weaker activity throughout the year, the harmonised index of consumer prices slowed down, with the index remaining permanently below the 1% threshold in Bulgaria after the end of the first half of 2020. In addition to the sharp fall in consumption, some pressure on Bulgarian price dynamics was exerted by the amendment to the Value Added Tax Act adopted by vote on 10/06/2020, whereby VAT was reduced to 9% for hotels, restaurants, books and basic items for babies and young children. At the same time, growing expectations of a forthcoming recovery helped the prospect of greater dynamics of price indices. The active monetary policy of the ECB (which for obvious reasons has a direct impact on money supply in Bulgaria) led to the preservation of favourable financing terms and largely offset the effect of adverse changes in credit standards resulting from the environment's worsening risk characteristics. This policy had a favourable effect on the behaviour of Bulgarian banks and somewhat compensated the unfavourable conditions in which the banking sector was forced to operate in 2020.

Lending in Bulgaria in the past year was put under pressure by economic activity weakened by active measures aimed at limiting the spread of COVID-19, negative real interest rates, the increase in impairment costs, the reduction in revenue from fees and commissions, as well as some indirect effects (expressed mainly in a change of the attitudes of local business agents). At the same time, the measures taken by the local regulator provided solid support to the sector and overall credit activity remained above 2008 levels, mainly at the expense of renegotiations within the procedure approved in April 2020 for deferral and settlement of liabilities payable to banks and their subsidiaries.

The monetary statistics data (Figure 1) show that in the past 2020 the total amount of loans disbursed and re-negotiated increased by 7.2% – from BGN 24.9 billion in 2019 to BGN 26.8 billion in 2020, which is by BGN 5 billion more than the previous peak (BGN 21.8 billion in 2008). The growth rate achieved in new business for households (-3% compared to 13.2% in company loans), but nevertheless, the activity in both segments (BGN 17.46 billion for NFC and BGN 9.06 billion for individuals and households) has a higher nominal value than the level achieved in 2008 (respectively BGN 12.95 billion and BGN 8.22 billion).

Figure 1 Volumes of new business

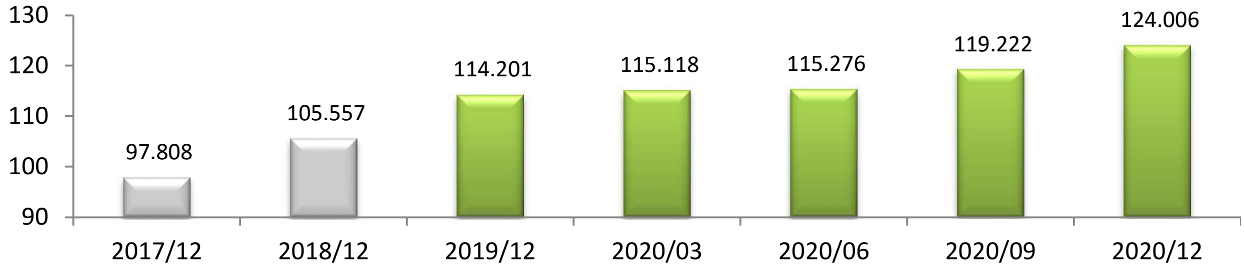


Source: BNB, own calculations

It can be noticed that the increasing lending in the corporate segment is accompanied by a sharp decrease in the share of long-term loans. The share of exposures with original maturity over 5 years has decreased from 63.6% to 56.4% of the total volume of new business for NFC, which against the background of deteriorated rates of gross share capital formation could be explained, on the one hand, by decreased demand for investment financing and, on the other hand, by the increased share of re-negotiations in the total volume of new business.

Aiming to stimulate lending activity, the Bulgarian National Bank (BNB) retained the negative interest rate on excess reserves and, in the first quarter of 2020, announced a package of measures in support of the banking sector, including capitalisation of the full profit in the banking system for the past year in the amount of BGN 1.6 billion. This provided a solid foundation for Bulgarian banking activity, with the assets of financial intermediaries increasing by the record BGN 9.8 billion (**Error! Reference source not found.**); here, it must be noted that the adverse environment resulted in a certain deformation of asset structure. So, for example, the share of loans and receivables in the total asset structure fell from 65.7% in late December 2019 to 58.9% in late 2020.

Figure 2 Assets of commercial banks (BGN billion)

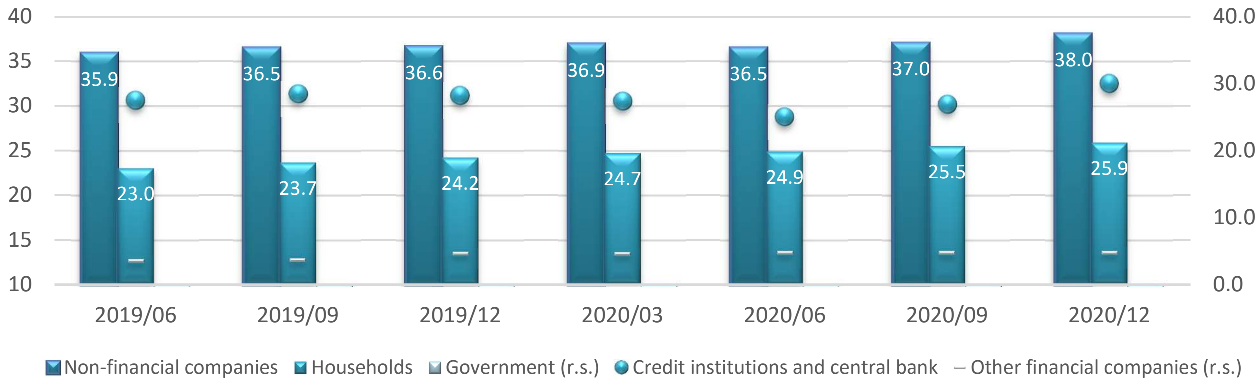


Source: BNB

As the growth of attracted funds accelerated, financial intermediaries made compensatory increases in highly liquid assets. The share of cash in the past year increased from 15.9% to 21.9%, whereas the share of debt instruments increased from 11.8% to 13.7%. Surpluses in liquidity coverage and capital adequacy ratios were maintained. At the end of 2020, the core equity tier 1 ratio (CET 1) in the Bulgarian banking system was 21.69%, and the total capital adequacy ratio was 22.74%. This provided space for lending activity, and at the end of 2020 the total balance sheet exposure in all major segments exceeded the values reported at the end of the previous year (Figure 3), with the main contribution to this growth being the aforementioned record increase in new business volumes reaching BGN 26.8 billion in the past year as a result of active re-negotiations.

The continuing increase in gross loans to households (by BGN 1.689 billion over the past year) against the backdrop of decline in new business volumes reported in this segment (by BGN 277 million) can mainly be explained by the longer original maturity of loans granted after 2014, as well as with the strengthening of the mortgage segment, as evidenced by the reported increase in the share of contracts concluded for a period exceeding 5 years. In 2020, this share reached an eight-year maximum, increasing by 2.3 percentage points. (79.1% vs. 76.7% in 2019).

Figure 3 Gross loans before impairment at the end of the period (BGN billion)

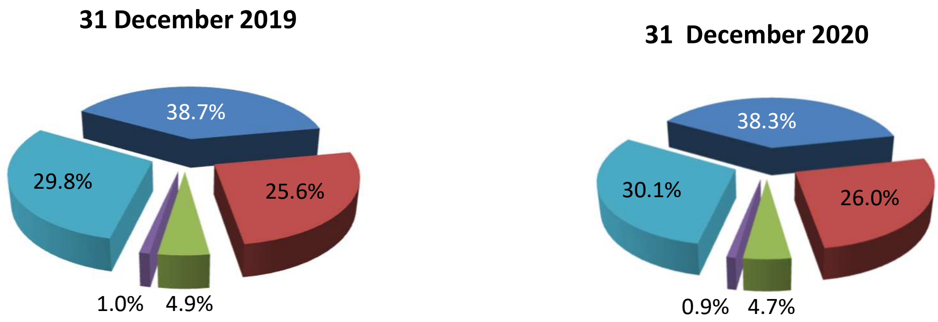


Source: BNB, own calculations

Significant differences in the volumes achieved in the main segments lead to some changes in the loan portfolio structure (Figure 4), and unlike in 2019, the exposure now changes mainly in favour of low-interest and non-interest-bearing segments (loans to financial undertakings, credit institutions and central banks). In the past 12 months, the share of exposure to credit institutions and central banks increased by 0.30 pp. (to 30.11%), at the expense of a contraction in the share of receivables from non-financial corporations (by 0.4pp. to 38.35%). The shares of receivables from other financial undertakings and the government sector also contracted (by 0.16 pp. and 0.09 pp., respectively). Loans to households have increased from 25.61% to 26.03% of the total structure of gross loans.

It is noteworthy that, unlike in previous years, when the growth rates of receivables from non-bank financial institutions reached double digits, this rate is now only 1.9%. This can be explained, on the one hand, by the change in the risk appetite of local banks (insofar as NBFIs are used mainly as intermediaries to direct loan funds to borrowers with relatively low ratings) and, on the other hand, by the increasing attractiveness of Bulgarian debt securities as a result of the so-called "Quick fix" of Regulation (EU) No 575/2013.

Figure 4 Structure of loans and advances

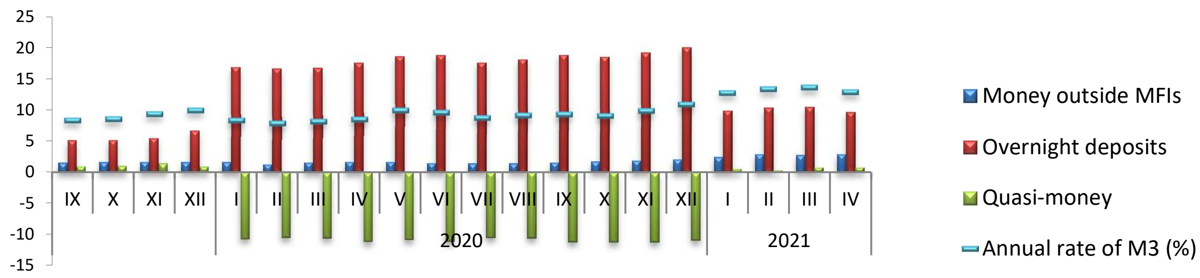


Source: BNB, own calculations

According to a European Commission decision of April 2020, the euro-denominated Bulgarian government securities were again equated to those in local currency, meaning the applicable risk weight will be 0% until 2023. This reduced the risk weights of this category of assets and accordingly increased their attractiveness to financial intermediaries in the country. This provided an alternative opportunity for the surplus of free funds and slowed down the flow to NBFIs.

Against the backdrop of forthcoming changes in the group of factors determining the activity of financial intermediaries, it can be expected that asset structure will undergo some changes in the next year. Factors leading to an increase in uncertainty include the slow recovery of economic activity as a result of the low rate of vaccination against COVID-19, the possible deterioration in the quality of loan portfolios due to the approaching maturities of loans renegotiated in 2020, the expected pressure on interest rates as a result of accelerating price dynamics, the uncertain political environment in the country stemming from the postponed start of the next political cycle (and the resulting pressure on public finances), etc. In parallel with the already listed risks, one of the serious short-term challenges for the banking system is the continuing growth in the imbalance in the maturity structure of interest-bearing assets and liabilities. Against the backdrop of the already noted increase in the share of long-term loans, which shows signs of steady acceleration in individuals, the structure of liabilities shows all signs of the beginning of a reverse trend (Figure 5).

Figure 4 Money aggregates (annual growth, BGN billion)



Source: BNB, own calculations

Making a comparison for 2020 is difficult due to the reclassification of some liabilities included in the monitored categories, but the chart for the first quarter of 2021 shows that the reported growth of quasi-money is close to zero (BGN 0.3-0.8 billion per year), while overnight deposits maintain a constant growth of BGN 9-10 billion per year. This shows that companies and households renew fewer and fewer of the maturing fixed-term deposits, that the share of long-term funds with banks is still decreasing, and that improving the maturity structure of liabilities (along with maintaining lending activity and loan quality) will be one of the serious challenges for the sector in 2021, particularly in an environment of zero and negative interest rates on invested funds. At the same time, it should be noted that efforts to meet this challenge will be supported by the inclusion of the Bulgarian lev in the exchange rate mechanism (ERM II), which is an important stage on the path of the country's accession to the euro area. Practice shows that, as a rule, this has a favourable impact on the development of the banking sector of the candidate country.

II. Review of the activity of Tokuda Bank in 2020

As at 31 December 2020, the assets of Tokuda Bank AD amount to BGN 396.799 million, which is 0.32% of the total amount of assets in the Bulgarian banking system. When compared to the assets of the Group II banks, to which Tokuda Bank AD belongs, this share is 1.06%. The average monthly value of balance sheet totalis relatively constant; in the past year, the indicator reached BGN 384.5 million, and in 2019 – respectively BGN 399.9 million.

In the past year, the Bank has successfully meets the challenges of the environment and continues to increase its potential to generate sustainable growth by strictly following the main priorities in its strategy. For instance, in relation to the priority for improving the structure of assets and liabilities, the following results may be indicated: gross loans increased to BGN 234.460 million, with moderate change in the allowances for credit losses, and the share of loan portfolio after impairment in the overall assets structure has increased by 3.81 percentage points to 56.75% of the total assets at the end of 2020 (compared to 52.94% in the previous year). Along with that, the quality thereof improved – in the past year, the Bank managed to shrink the share of non-performing loans by 1.28 percentage points to 13.13% of the gross amount of loans and advances to customers.

This was one of the key challenges for the past year, against the adverse environment and moderate lending rates, which are a logical result of the worsening solvency of economic agents (as a result of the pandemic) and increased competition for customers with proven creditworthiness. The increase in the share of performing loans and of the loan portfolio as a whole into the balance sheet structure was achieved at the expense of categories generating relatively low (including zero) income for the Bank.

The latter also corresponds to another business objective, namely improving profitability indicators. The fulfilment of this objective may be tracked through the dynamic of the ratio between total operating expenses to the total operating income, which over the past year remained more or less unchanged (decreasing by 0.55 percentage points to 96.717%) as a result of the lack of change in the total operating income, before allowance for credit losses (BGN 13.543 million in 2020 vs. BGN 13.764 million in 2019), but also as a result of the limiting of operating expenses by BGN 288 thousand (to BGN 13.024 million in 2020).

The latter fact is a natural result of fulfilling another key objective, namely, improving the effectiveness of the Bank’s market presence through optimisation of the office network. Pursuant to this objective, the following offices were closed down in 2019: – IRM Sheinovo –2nd RM in Varna, Kyustendil office, Shumen office and IRM Cadastre –2nd RM in Shumen, and in the beginning of 2020, the offices in Sofia and Sofia Business Park were closed; the optimisation process was carried out without a significant client outflow. Thus, the Bank managed to optimise its expenses and thus free resources to be relocated to the points that have the potential to generate higher added value.

The objectives of another priority in the strategy and business plan have also been achieved successfully, namely the effective management and control of the amount of customer deposits aimed at reduction of the resource costs while maintaining stable financing. In 2020 the Bank managed to retain the volume of attracted funds (which only grew by 0.14% to BGN 351.063 million), while the share of more expensive financing, whose source are individuals and households, decreased by 0.67 percentage points (from 73.31% to 72.64% of the overall structure at the end of the past year). Thus the price of attracted funds continues its downward trend and in 2020 interest costs decreased by 29.96%, reaching BGN 1.099 million (compared to BGN 1.569 million in 2019).

In accordance with the strategy and objectives in its business plan, in 2020 the Bank managed to achieve a financial result close to what it had planned, realizing a net loss of BGN 151 thousand. The result is lower than in the previous year of 2019, when the Bank stated a net profit of BGN 1.153 million, mainly due to differences in accrued impairment.

1. Operating income and expenses

In 2020, the Bank generated operating income before impairment and allowance for credit losses at the amount of BGN 13.543 million (Table 1), which is BGN 221 thousand (1.61%) less than in 2019. Its dynamics over the past year was still influenced most of all by the effect of the decreasing interest rates in the country, resulting in a limited increase in gross interest income on loans, which while the volume of the performing portfolio increased by 7.71% grew by almost two times slower pace (4.33% or BGN 400 thousand). The decrease in interest expenses accelerated to 29.96%, and their amount decreased by BGN 470 thousand compared to the previous year, mainly due to the limitation of deposits with agreed maturity (whose volume decreased by 1.62%, and their share in the overall structure of attracted funds – by 1.69 percentage points).

In 2020, the Bank continued to adhere to the adopted conservative policy regarding administrative expenses. As part of this policy, the management exercises systematic control over expenditure, as in 2019 and 2020 the items related to the rebranding and promotion of the Bank’s new look gradually elapsed. This resulted in a decrease of some administrative and operating expenses, as a result of which their total amount decreased in 2020 by BGN 288 thousand (to BGN 13.024 million).

The ratio of the total operating expenses to the total operating income for the past year decreased by 0.55 percentage points (to 96.17%), which is due both to the faster rate of the abovementioned reduction of the operating expenses by BGN 288 thousand, while overall operating income before allowance for credit losses contracted more slowly by BGN 221 thousand (from BGN 13.764 million in 2019 to BGN 13.543 million in 2020).

The continuing decrease in interest levels and the worsening market situation over the past year as a result of restrictive measures introduced to limit the spread of COVID-10 led to some changes of the income structure (Table 1). In 2020, the share of net interest income continued to increase moderately – by 1.42 percentage points and reached 67.18% of the total amount of net income, while non-interest income decreased its share, reaching 32.82% (in the same period of

2019, these values were respectively 65.76% and 34.24%). The changes in the structure could be explained by the positive rate of income from the first category, which increased by 0.52% on an annual basis (as a result of improving the quality and increasing the volume of gross loans and limiting the price of attracted funds), while non-interest income decreased by BGN 221 thousand in the past year.

Table 1. Operating income (BGN million)

	2020	*2019*
Interest income	10,197	10,620
Interest expense	(1,099)	(1,569)
Net interest income	**9,098**	**9,051**
Fee and commission income	3,913	3,974
Fee and commission expense	(277)	(259)
Net fee and commission income	**3,636**	**3,715**
Net profit from financial assets held for trading	**360**	**286**
Other operating income	**449**	**712**
Total operating income	**13,543**	**13,764**

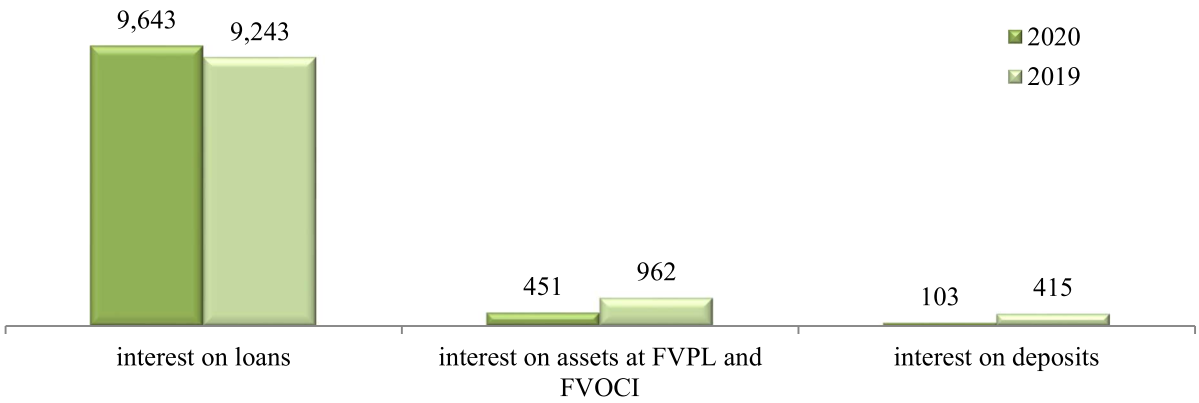
The gross income from interest on loans and other receivables increased by BGN 400 thousand to BGN 9.643 million and continued to have the biggest relative share as compared to the total amount of interest income, and retaining it is a huge challenge against the general market trend of decrease in interest rates. The main factor contributing to the growth in gross income from the loan portfolio of Tokuda Bank AD is the higher activity, as well as the continuing improvement of the portfolio quality (although during the past year the share of the classified loans before impairment increased by 2.54 percentage points to 28.41%, the Bank has managed to limit the share of non-performing exposures, which has decreased by 1.28 percentage points to 13.13%). The growth rate of the interest income on loans achieved in 2020 (4.33%) is comparable to last year's (4.99%); aligned with the decrease of interest income on securities in 2020, the share of interest income on loans increased by 7.53 percentage points compared to last year, reaching 94.57% at the end of the period.

Interest income from the debt instruments portfolio (Figure 6) decreased by BGN 511 thousand (or by 53.12% compared to the figure stated in 2019) to BGN 451 thousand for the past year due on the one hand to portfolio amortisation and the sales made totalling BGN 20,112 million, accompanied by intensive purchases, resulting in replacing the issues recognized in the Bank's 2019 balance sheet with new ones whose profitability is lower. The accelerated rate of shrinkage of income from this source results in a noticeable decrease in the share of the first category in the total amount of interest income in 2020 – from 9.06% to 4.42%.

As a logical consequence of the continuing decrease in interests on interbank deposits and their crossing into negative territory (resulting from effective transfer of the effects of the Eurozone's quantitative easing policy), the total amount of income from this source decrease fourfold, reaching BGN 103 thousand (compared to BGN 415 thousand in 2019). In parallel with the continuing decrease in interest rates, the contraction in income from this item was also affected by the decrease of the average annual amount of this group of assets in the past period (to BGN 39.046 million in 2020 vs. BGN 48.670 million in the previous year).

The price of attracted funds remained above the average level for the local banking system (as individual and household deposits maintained their relatively higher share in the Bank's deposit base), continuing to follow the overall downward trend. As a result of this trend and the implemented effective policy of liability management, interest costs fell by 29.96%, reaching BGN 1.099 million in 2020 (compared with BGN 1.569 million in 2019).

Figure 5. Interest income by sources (BGN million)



In 2020, the interest spread maintained its prior-year level (Figure 7), and during most of the reporting period, the indicator varied within a relatively narrow range (2.4-2.7). The exceptions were June and December, when the spread respectively increased to 4.39 and 3.18 as a result of the recognition of court and court-awarded interest on some of the biggest non-performing exposures of the Bank. The comparison of the profitability of interest-bearing assets shows that over the past year, the average weighted profitability ratio decreased by 8 b.p. (from 3.19% in 2019 to 3.11% in 2020), despite the decrease in the share of classified loans with delays on principal and interest payments by more than 180 days. This is a logical result from the decrease of interest rates on newly granted loans to align them with the market situation, largely compensated by the decrease in expenses on attracted funds, which on an average annual basis decreased by 15 b.p. - from 0.38% in 2019 to 0.29% in 2020 (as a result of interest decreases and maturity occurrence of a significant part of the relatively expensive longer term deposits at the Bank).

The moderate actions related to applying fees on higher current account balances and retaining more favourable (compared to the widespread) interest on fixed-term deposits in 2020 resulted in slight changes in the maturity structure of attracted funds, and in the past year the share of current accounts increased by 1.69 percentage points (to 44.71%). The resulting decrease in expenses on attracted funds, along with the realization of additional proceeds (from collected court receivables) in the past year led to maintaining the accumulated interest spread in 2020 practically unchanged from the one stated for 2019 (respectively 2.82% vs. 2.81%).

Figure 6. Interest spread components (%)

Non-interest income

In 2020, the Bank's non-interest income decreased by BGN 268 thousand (5.69%) on annual basis reaching BGN 4.445 million, which is mainly due to the net impact of the decrease in income not related to the principal activities. In the past year, the "other income" item decreased by BGN 263 thousand (from BGN 712 thousand in 2019 to BGN 449 thousand in 2020), partly offset by an increase in revenue from assets held for trading in the same category.

The largest share in this group of income remained that of net income from fees and commissions, decreasing insignificantly over the past year (by BGN 79 thousand or 2.13% on an annual basis) to BGN 3.636 million as a result of the decreased income from wire transfers, servicing of cards, and guarantees issued. These decreases were partly compensated by the higher income from account servicing and loan fees, which in the past year increased by a total of BGN 278 thousand. The structure of proceeds from fees and commissions over the past year did not undergo significant changes, with the biggest increase occurred in account service fees (4.21 percentage points to 25.02% of the gross fees income), and the biggest shrinkage being the one of the transfer fees (by 7.54 percentage points to 30.28% of the gross fees income).

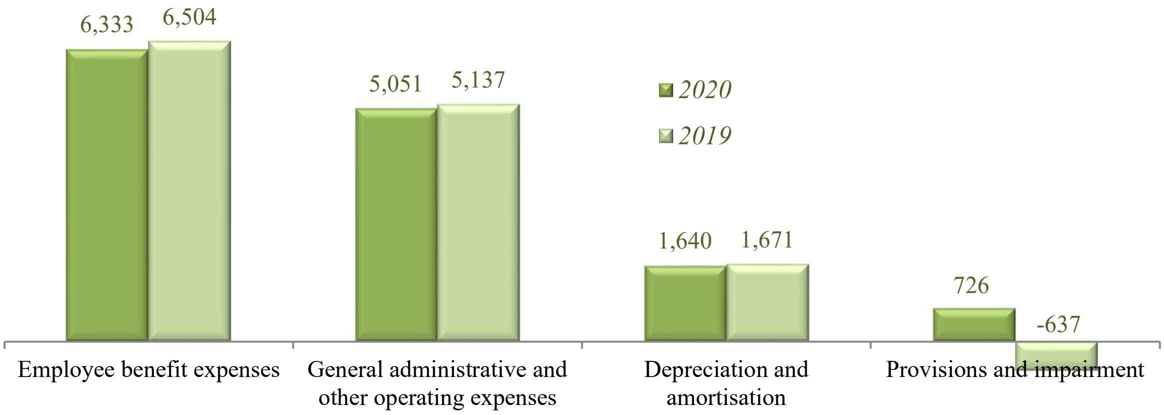
Falling expectations of an increase in the benchmark interest rate indexes, which against the backdrop of the COVID-19 pandemic (and subsequent activation of the quantitative easing policy) were shifted forward, causing a positive impact on income from trading with securities, as a result of which the net income from trading operations grew by 25.87% reaching BGN 360 thousand in the past year.

Non-interest expenses

The Bank's non-interest expenses in 2020 amount to BGN 13.750 million (Figure 8), which is BGN 1.075 million or 8.48% less than the preceding year. This is due to the increase in impairment costs by BGN 1.363 million on 2019. The other items in this group decreased, reaching BGN 171 thousand in personnel expenses (amounting to BGN 6.333 million for 2020), as a result of the regional optimisation of the Bank's structure and the closure of certain office in 2019 and 2020. For the same reason, the total administrative expenses decreased by BGN 86 thousand, reaching BGN 5.051 million in the past year. Amortisation and depreciation expenses remained similar to those reported in 2019, decreasing slightly (by BGN 31 thousand to BGN

1.640 million) as a result of the Bank's continuing measures for renovation of the technological equipment.

Figure 7. Non-interest expenses (BGN million)

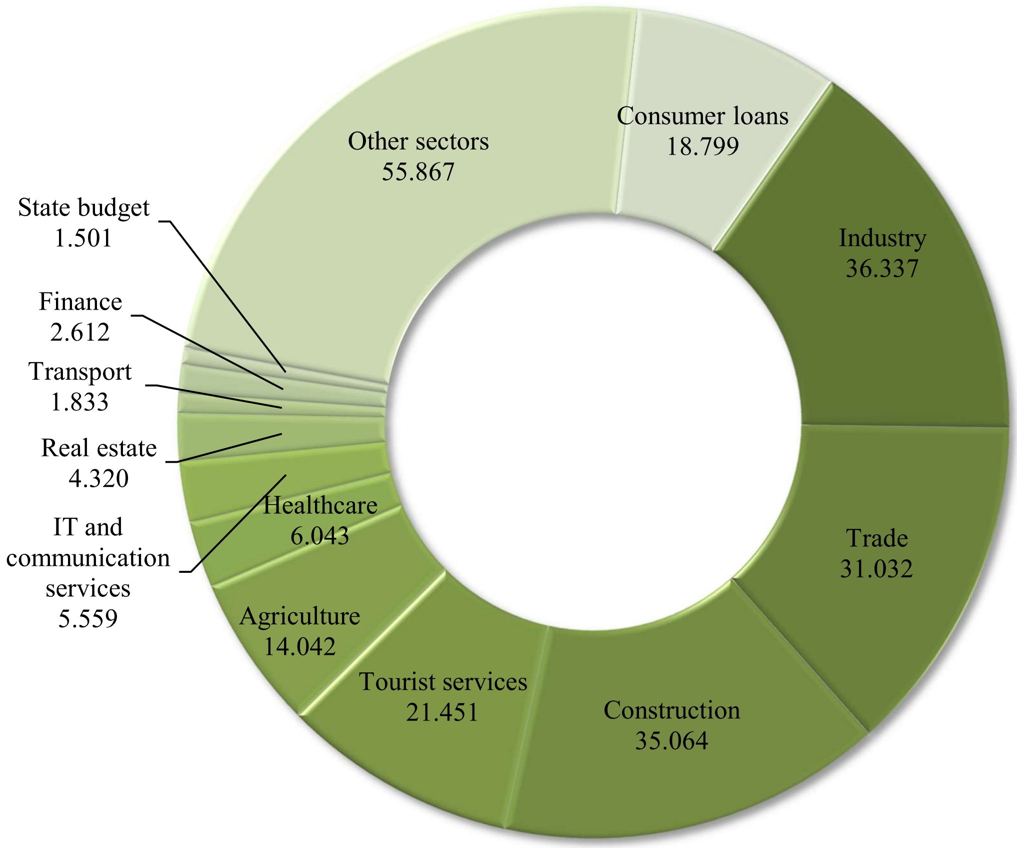


The clearly expressed dynamics of a portion of expenses in this group led to a change in its structure. For instance, the share of personnel expenses (including the labour remunerations and social security contributions) in the overall structure of non-interest expenses decreased by 5.26 percentage points (from 51.31% to 46.06% over the past year), the share of total administrative and other operating expenses decreased by 3.79 p.p. to 36.73%, and amortisation and depreciation costs in 2020 were 1.26 percentage points lower compared to the preceding year. The share of provisions and impairment costs increased by 10.31 percentage points.

2. ***Loan portfolio***

At the end of 2020, the gross carrying amount of the Bank's loan portfolio (Figure 9) was BGN 234.460 million. After recognising an allowance for credit losses of BGN 9.263 million, the net amount of the portfolio is BGN 225.197 million. The moderate increase is due to the poor business environment and the spike in risk of the environment, but also due to the intensified activity of collection of receivables classified as "loss". As a whole, the rate achieved is sufficient to contribute to a considerable growth in the share of the loan portfolio after impairment in the overall assets structure (which is one of the Bank's strategic objectives, related to the improvement of profitability ratios) by 7.32 percentage points to 56.75% of the total assets at the end of 2020 compared to 52.94% in the previous year.

Figure 8. Loan portfolio allocation (BGN million)



The loans to corporate customers increased by BGN 15.262 million (to BGN 183.296 million before impairment), and their share in the gross amount of the credit portfolio increased by 1.24 percentage points compared to the prior year (to 78.18%), which is due to the continuing elevation of activity of the Corporate Banking Division at the head office.

The changes in the "*individuals and households*" segment were caused by the moderate activity in this category of borrowers. This segment's share decreased from 22.38% in the structure of gross loans in 2019 to 21.18% in 2020. In absolute terms, the segment demonstrated a weaker increase than last-year's growth, amounting to BGN 794 thousand, which is a growth of 1.62% compared to the previous year, when its share in the overall portfolio structure decreased by 1.19 percentage points due to the faster growth of the exposures to corporate clients.

In 2020 the Bank continued its traditional business with entities from the industry, trade, construction, energy, agriculture, healthcare, and other sectors. The biggest relative share this year was dedicated again to loans to the industry sector, which however decreased by 2.41 percentage points in 2020 as a result of the fall in orders to local manufacturers and at the end of the year loans to this sector amounted to 15.50% of gross loans. Next by share are the sectors of construction (whose share grew by 1.92 percentage points to 14.96%), trade (whose share increased from 12.00% to 13.24%) and tourism, whose share increased by 2.23% percentage points (to 9.15%).

In the past year, the Bank has continued to maintain its moderately conservative lending policy, and new loans are approved for the individuals meeting high reliability and creditworthiness criteria. An indicator of the effectiveness of these criteria is the regular servicing of loans by new customers.

In response to the increased environmental risk posed by the COVID-19 pandemic, the Bank has identified a list of affected industries to be approached with caution and whose applications financing should only be considered as an exception. Also in response to the pandemic, the Bank made efforts to further strengthen its direct contact with existing borrowers, companies and individuals, thereby providing timely information on trends in financed businesses.

The changes in the portfolio's currency structure are moderate. The share of euro-denominated loans has decreased by 3.01 percentage points (to 26.37% of the carrying amount of the loan portfolio following impairment), mainly offset by BGN-denominated loans (growing by 2.94% to 73.56% of the carrying amount of the loan portfolio after impairment) and USD-denominated loans taking up 0.07% of the loan at the end of the past year.

Table 2. Loan portfolio allocation by classification groups (BGN million)

	2020			2019		
	gross amount	provisions according to IAS	carrying amount	gross amount	provisions according to IAS	carrying amount
Serviced	203,671	494	203,177	186,932	124	186,808
Unserviced	30,789	8,769	22,020	31,472	10,251	21,221
Total	234,460	9,263	225,197	218,404	10,375	208,029

Pursuant to one of its strategic objectives, during the past year the Bank managed to shrink the share of non-performing loans by1.28 percentage points, to 13.13% of the gross amount of loans and advances to customers. Continuing this trend is becoming an even greater challenge given the slow economic recovery from the COVID-19 pandemic, which is associated with expectations of a forthcoming slowdown in real income growth, underemployment, as well as growing uncertainly of the environment (to which the postponed start of the next political cycle has also contributed). Those factors continue to put increasing pressure on household consumption patterns, hence – on lending rates, which could in turn hinder lending activity, hence – the process of improving the portfolio.

In order to cover the risk of losses from loan impairment and in accordance with the requirements of the new IFRS 9, as at 31 December 2020 the Bank charged an allowance for expected credit losses at the amount of BGN 9.263 million, and the coverage coefficient has decreased from 4.75% to 3.95%. The coverage of impairment provisions for performing loans has grown by 0.18 percentage points, reaching 0.24%. Nearly the entire impairment (94.67%) has been allocated to non-performing receivables (Table 2).

3. ***Securities***

The securities portfolio has decreased at the end of 2020 by BGN 16.093 million to BGN 48.575 million. Thus, its share in the total assets amount has decreased by 4.22 percentage points compared to the previous year, reaching 12.24%. The rate of change was intensive (24.89%), as far as in view of the greater inflationary expectations and the growing risk of a market correction, the Bank is trying to limit its exposure to fixed-income instruments. The restriction on this asset category is also a manifestation of the policy adopted by the Bank, aimed at gradual restructuring of its assets by reducing low-income components in their structure.

Unlike in the previous year, in 2020 most of the securities (80.38%) are classified at fair value through other comprehensive income, and the total carrying amount of this category in the past year increased from BGN 27.234 million to BGN 39.046 million. The share of securities classified at fair value through profit or loss has decreased from BGN 37.434 million at the end of last year to BGN 9.529 million as at 31 December 2020.

Table 3. Securities portfolio (carrying amount, following impairment and credit loss allowance, BGN million)

	2020-12-31	**2019-12-31**
Stocks and shares in local enterprises	451	454
Bulgarian government securities (including Eurobonds)	22,234	25,026
Foreign government securities (including Eurobonds)	23,938	37,273
Corporate bonds of local and foreign issuers	1,952	1,915
TOTAL	**48,575**	**64,668**

Over the past year, investments in foreign government securities decreased by BGN 13.335 million (to BGN 23.938 million), with the share in the total securities portfolio contracting by 8.36% (to 49.28%). Local government securities (Bulgarian state securities and Eurobonds) also had a negative growth, amounting to BGN 2.792 million in 2020. The carrying amount of assets in this category thus decreased to BGN 22.234 million, but their share in the overall portfolio structure has grown by 7.07 percentage points amidst the backdrop of the faster negative growth in debt securities by foreign issuers (35.78% on an annual basis).

Apart from investments in local government securities, there was also a decrease during the past year in the category of stocks and shares of local enterprises, which decreased by BGN 3 thousand (0.66%) to BGN 451 thousand. The only assets with positive growth in this category were corporate bonds of local and foreign issuers, which in 2020 decreased by BGN 37 thousand (2.02%) to BGN 1.952 million. Some of those effects can also be attributed to currency revaluations of USD-denominated securities. The total impairment charges and credit loss allowance on instruments reported at fair value in other comprehensive income increased by BGN 87 thousand in 2020, reaching BGN 22 thousand for the year.

4. __Attracted funds__

In 2020, the volume of attracted funds from customers grew by 1.38% and in the end of the year reached BGN 351.063 million. To a certain extent, the pandemic’s effect on attracted funds constituted an increase in personal savings and, in turn, higher liquidity in the banking system. The sources of most of the attracted resources were individuals and households (Table 4). Over the past year, the share of funds from this source decreased by 0.67 percentage points (to 72.64% in the overall structure), mainly as a result of the Bank’s focused efforts to optimise its high liquidity. This change took place entirely at the expense of deposits by legal entities, including current account balances, which over the past year increased their share in the total structure by 1.08% (from 23.67% to 24.75%) and retained their second place in the rankings of sources of attracted funds. Deposits by budget entities decreased their share by 0.28 percentage points from 2.80% to 2.52%). The weak growth of funds attracted from non-bank financial institutions can be explained by the indicators of higher liquidity in the banking system. Over the past year, deposits from this source decreased by BGN 432 thousand, representing a contraction in their share in the overall structure of attracted funds from 0.22% to 0.09%.

Tokuda Bank is no exception from the banking system and keeps maintaining high liquidity, thus maintaining a weak interest in attracting any resource from banks. The total amount of deposits from credit institutions in the past 2020 constituted a negligible share of the Bank's liabilities (0.01%), falling from BGN 113 thousand to BGN 45 thousand, and in the end of 2020 took a negligible share of the Bank's liabilities (0.01%).

Table 4. Structure of attracted funds (BGN million)

	2020			2019		
	On-demand and savings deposits	Fixed term deposits	**Total**	On-demand and savings deposits	Fixed term deposits	**Total**
Accounts of individuals	93,738	161,260	254,998	85,081	168,768	253,849
Budget accounts	8,854	0	8,854	9,696	0	9,696
Company accounts	54,259	32,627	86,886	53,456	28,518	81,974
NBFI accounts	125	200	325	757	0	757
TOTAL	156,976	194,087	351,063	148,990	197,286	346,276

Activities aimed at optimising the price and maturity structure of liabilities, including the retention of fees on current account balances, continued in 2020. As a result of achieving a good balance in the aimed effects, the average contract price of this resource decreased by 1/3 (from 0.34% to 0.24%) in 2020, with its structure retained in general as the share of fixed-term deposits shrank by 1.69 percentage points to 55.29%, while the share of on-demand deposits increased slightly to 44.71%.

The changes in the currency structure of the attracted funds are insignificant and in favour of the euro, whose share over the last year increased from 38.24% to 38.95% at the expense of deposits denominated in BGN and USD, whose shares decreased respectively by 0.25 percentage points (to 50.18%) and by 0.54 percentage points (to 9.47%). The shares of deposits denominated in JPY and other currencies remain almost unchanged, and at the end of the period reached respectively 1.01% and 0.38% of the overall structure.

5. ***Risk exposure***

The Bank has established a risk management system for the risk related to financial instruments, which for the purpose of its monitoring and management is defined as the likelihood of discrepancy between expected proceeds (from the financial instruments held) and actual ones. The system has been established so as to allow the timely identification and management of the different types of risk related to financial instruments. Particularly important to this system are the management procedures, the mechanisms for maintaining reasonable risk levels, ensuring optimal liquidity, and portfolio diversification.

A key element of the management system is the possibility to present and analyse the types of risks that the Bank is exposed to, in an exhaustive and certain manner, but also make a clear distinction between the types of risk that the Bank is exposed to, namely: credit risk, liquidity risk and market risk, which includes interest, currency, and price risk.

Credit risk, within the system used, is addressed by setting limits on the maximum credit risk exposure to a debtor, to a group of related parties, by relevant business sectors. In order to reduce credit risk, according to the internal credit rules, adequate collaterals and guarantees are required.

Cash and cash balances with the Central Bank amount to BGN 49.461 thousand as at 31 December 2020 (respectively BGN 53.193 thousand as at 31 December 2019) and do not bear a credit risk to the Bank due to their nature and the fact that they are at the Bank's disposal.

Loans and receivables from banks as at 31 December 2020 amount to BGN 31.190 thousand (respectively BGN 26.163 thousand as at 31 December 2019) and represent mostly deposits in first-class international and Bulgarian financial institutions with maturity of up to 7 days. The Bank manages the credit risk associated with loans and receivables from credit institutions, by setting exposure limits at counterpart level.

Loans and advances to customers, with a carrying amount of BGN 225.197 thousand as at 31 December 2020 (respectively BGN 208,029 thousand as at 31 December 2019), expose the Bank to credit risk. In order to assess it, the Bank analyses the individual risk of each exposure by applying the criteria for risk assessment and classification according to the Policy for impairment of financial assets and contingent liabilities.

As at 31 December 2020, in order to calculate exposures to credit risk, Tokuda Bank AD applies the standard approach pursuant to Regulation (EC) No 575/2013. Due to the relatively small volume of financial instruments in the trading portfolio, capital requirements are calculated in accordance with the requirements of Regulation (EC) No 575/2013, applicable for the banking portfolio. To calculate the amount of capital necessary to cover operating risk losses, the basic indicator approach is applied.

Regarding **liquidity risk** (arising from the maturity gap of the assets and liabilities and the probable lack of sufficient funds of the Bank to meet its obligations on its current financial liabilities), it should be pointed out that Tokuda Bank maintains a substantial amount of liquid assets in the form of cash in hand and cash balances with the Central Bank, which guarantee the Bank's ability to meet its liquidity requirements. As at 31 December 2020, the Bank's cash and cash balances with the Central Bank represent 12.47% of the Bank's total assets (respectively 13.54% as at the end of 2019).

As an additional instrument to ensure liquidity, the Bank uses loans granted to banks. These comprise mostly deposits in first-class international and Bulgarian banks, with maturity of up to 7 days. As at 31 December 2020, loans and receivables from banks constitute 7.86% of the Bank's total assets (respectively 6.67% as at the end of 2019).

High-liquidity bonds owned by the Bank and not pledged as collateral as at 31 December 2020 amount to 9.3% of the Bank's total assets (compared to 13.13% at the end of 2019). By maintaining above 29.66% of its assets in highly liquid assets, the Bank ensures its ability to meet all its payment needs on matured financial liabilities.

Market risk arises on opened exposures in interest, currency and equity instruments, which are sensitive to general and specific market movements and affect the Bank's profitability. Market exposure is managed in accordance with the risk limits set by the management. The Bank manages the financial instruments held thereby, considering the changing market conditions. Market risk exposure is managed in accordance with the risk limits set by the management, by means of the purchase and sale of financial instruments or by opening an offsetting position to hedge the risk.

In order to measure and assess the **interest rate risk**, the Bank uses the GAP analysis method (misbalance method), allocating interest-bearing assets and liabilities in time ranges depending on the period left until their revaluation (for instruments with floating interest rate) and maturity (for instruments with fixed interest rate). Thus it identifies the sensitivity of the expected revenue and expenses to changes in interest rates. The GAP analysis method aims to determine the exposure of the Bank, as a total amount and by separate types of financial assets and liabilities, in relation to expected interest rate fluctuations and their impact on net interest income. Its results support the management of assets and liabilities, and ensure sufficient and stable net interest income. Upon interest rate risk management, the Bank applies a policy and procedures according to the nature and complexity of its operations. By managing interest rate risk, the Bank aims at a stable spread between the interest income and expense to provide an adequate profitability and maximum value at an acceptable risk value, and in view of the business volumes and structure, the Bank's exposure to interest rate risk and its sensitivity to this risk may be determined as moderate.

Foreign currency risk is the possibility to realise losses as a result of changes in foreign currency exchange rates. Most of the Bank's assets and liabilities are denominated in EUR and BGN; therefore, an adverse change in interest rates is insignificant, in as far as the exchange rate of the BGN is fixed to the EUR (under the Bulgarian National Bank Act, adopted by XXXVIII National Assembly on 5 June 1997, promulgated in the State Gazette, issue 46 dated 10 June 1997). Therefore, the Bank's open positions in EUR bear no currency risk for the Bank; such risk is posed by open positions in currencies other than EUR.

Price risk is related to the fluctuations in market prices of financial assets and liabilities which can cause losses for the Bank. The main risk for the Bank is the risk of decrease in the market prices of the financial instruments held thereby for trading, which can lead to a decrease in net profit. As described in item 3 of this Section, a substantial part of the Bank's investments are in Bulgarian sovereign securities, which do not pose a significant price risk.

In 2020, Tokuda Bank AD continued adhering to a conservative approach in risk management and assessment, including with respect to credit risk, forming 88% of all risk exposures as at 31 December 2020. The Bank takes actions to decrease the risk on all credit exposures (mostly at the expense of the portfolio of non-performing loans), as a result of which the share of risk-weighted assets for credit risks has increased by 1 percentage point. Overall risk exposure has increased by BGN 679 thousand compared to the previous year, reaching BGN 225.357 million as at 31 December 2020.

Table 5 Risk-weighted assets

	2020-12-31		2019-12-31		change	
	BGN million	*share*	*BGN million*	*share*	*BGN million*	*share*
For credit risk	198.019	88%	195.553	87%	2.466	1%
For market risk	1.35	1%	2.725	1%	-1.375	-50%
For operating risk	25.988	12%	26.4	12%	-0.412	-2%
Total	**225.357**	**100%**	**224.678**	**100%**	**0.679**	**0%**

Besides for the purposes of supervision, Tokuda Bank AD also calculates the Bank's economic capital, which would secure its solvency under unfavourable market conditions. For this purpose, an Internal Capital Adequacy Analysis (ICAA) is prepared.

6. ***Capital and reserves***

As at 31 December 2020, the Bank's equity amounted to BGN 42.239 million, and the basic capital according to the capital adequacy requirements for credit institutions is BGN 41.986 million.

The Bank's capital indicators are above the regulatory limits. Its capital position ensures an adequate coverage of risk exposures. The adequacy of the core Tier 1 capital has grown compared to the previous year by 12 b.p., reaching 18.63%, which exceeds the required regulatory limits.

As at 31 December 2020, the share capital amounts to BGN 68,000,000 /sixty-eight million/. The capital is allocated in 6,800,000 /six million and eight hundred thousand/ registered, dematerialised (non-cash) shares entitled to vote, with a nominal value of BGN 10 /ten/ each, and with an emission value equal to the nominal value.

According to the Book of Shareholders kept at the Central Depository, the Bank shareholders as at 31 December 2020 have remained, as follows:

- Tokushukai Incorporated, Japan (holding 99.94% of the capital);
- Gama Holding Group AD, Bulgaria (0.06%).

7. ***Branch network***

The Bank has a well-developed network consisting of 22 offices and remote workplaces across Bulgaria. The regional structure provides fast access to the Bank's prospective customers because the branches are located in the country's main administrative hubs, while the organisational and managerial structure ensure direct and effective contact with future customers for the purpose of offering them solutions meeting their needs. In order to optimise the activities conducted by the Bank in the last few years and given the COVID-19 pandemic, the Bank closed its Sofia Office and Business Park Office in 2020. The optimisation was carried out without a significant client outflow.

The structure of the branch network as at 31 December 2020 is as follows:

- Headquarters
- Offices – 19.
- Remote workplaces – 3

The Bank's regional offices provide professional and high-quality services to their customers, as well as timely support in solving various issues and possibilities for utilization of new products and services.

8. *Relations with correspondents*

The Bank corresponds to all Bulgarian banks, as well as to leading banks abroad, following a policy for continuous optimization and expanding its relations with correspondents.

9. *Human resources*

Human resources are a key factor for the achievement of the strategic objectives of Tokuda Bank AD, which was proven to an even greater extent in the situation caused by COVID-19. The Bank's management has been developing a human resource management system through continuous optimization of the staff administration processes (planning, recruitment, appointment, monitoring, assessment, promotion and dismissal). In 2020 the number of employees decreased from 223 to 219 as at 31 December 2020. This change is due to the closed divisions in the Bank's regional structure, with the effect partially offset by the recruitment of new employees in the office network and the head office.

A determining factor for fulfilling the Bank's mission and strategy is the quality of its employees – their qualification, professional skills, and loyalty. The Bank's employees take part in a number of trainings and communications related to the functions performed thereby, since improving qualifications is one of the main and proven means to improve the working environment, service quality, and Bank's performance. The restructuring of work necessitated by the pandemic resulted in rapid transition to remote methods of communication and staff training. Tokuda Bank's team overcame the challenges with a high level of commitment and adequate responses, maintaining the Bank's operations during all periods of increased risk.

The 'open door', communication and collaboration between divisions policy is ongoing. The Bank continues to make effort to retain and motivate valuable staff, by means of trainings, reporting, periodic control and changes, where necessary.

10. *Information technologies*

Over the past year, the process of updating the e-banking platform, which was an important method of providing customer service while physical contacts were restricted, was completed. The promotion of the software platform (updated in 2019) servicing Bank-issued debit and credit cards continued. The initiatives aim on the behaviour of the Bank's customers. One of the challenges in this area in 2021 will be to use the functionalities of the new systems in a way that helps Tokuda Bank better sell its card products.

III. Development prospects in 2021

As a whole, the operating plan for 2020 envisages continuing the actions taken to optimise business processes and complete the ongoing projects, as well as taking targeted measures for organizational and technological improvements aiming to help the Bank meet the latest regulatory requirements, customer needs and business expectations. In view of the fact that the planning process was held and completed in a climate of uncertainty and worsening of the indicators of the local and global economy as a result of the COVID-19 pandemic, the Bank has assessed the need to update its business objectives after the first half of the year due to the still insufficient clarity and conflicting forecasts of the economic consequences of the pandemic.

Currently, the Bank's management intends to maintain a moderately conservative policy upon performing its main operations, in view of stabilizing its profitability indicators, and conduct active marketing campaigns in order to increase its market share. The main objective for 2021, namely intensification of lending activity and improvement of the portfolio quality, remains unchanged. The preliminary estimates in the financial plan show that the planned growth in activity may be achieved, as far as the Bank has a relatively small market share and has the potential to achieve lending rates that are above the average ones for the system.

A leading principle in determining development prospects is maintaining reasonable risk levels; therefore, which is why the main priority this year will again be the precise selection of appropriate customers and the reasonable assessment and management of credit risk.

In short, the main priorities for the Bank's development in 2021 have been retained in the way they were set upon determining its mid-term strategy, and may be summarised as follows:

- Improving the loan portfolio quality and optimising the asset structure in accordance with the policy on admissible credit risk and its capital coverage;
- Improving the Bank's efficiency; decrease of operating risks and building a solid base for long-term sustainable growth;
- Full use of modern information technologies to reach a wide range of customers, which would allow improving the quality and expanding the range of services offered;
- Increased activity in the field of retail lending in order to achieve better risk diversification and improvement of the profitability indicators;
- Expansion of the market presence of the Bank by undertaking active measures aimed to increase the popularity of the "*Tokuda Bank*" brand and achieve better recognition thereof among potential customers;
- Establishing stable income from main operations to ensure higher return of shareholder's capital.

IV. Information on changes in the share capital, dividend policy and management

1. ***Changes in the share capital***

In 2020 there were no changes in the volume and structure of the Bank's share capital. The majority shareholder, holding 99.94% of the capital, is Tokushukai Incorporated, Japan. As at 31 December 2020, Tokuda Bank AD does not possess any own shares.

2. ***Management***

In 2020, the Bank preserved its two-layer management system. The composition of the Supervisory Board remained unchanged, while composition of the Management Board changed as follows:

• Maria Sheytanova was relieved of the post of Executive Director and member of the Management Board, and in October 2020 she was erased from the Commercial Register and the register of non-profit legal entities as a member of the Management Board and Executive Director.

• Todorina Doktorova was appointed Executive Director, starting from 15 January 2021.

• Savka Yondova became Executive Director and member of the Management Board, starting from 15 January 2021.

At the time of preparation of these statements, the managerial bodies of this public company consisted of the following members:

Bank's Supervisory Board

- Arthur Sterne – Chairperson of the Supervisory Board;
- Thomas Michael Higgins – Member of the Supervisory Board;
- Chris Matlon – Member of the Supervisory Board.

Bank's Management Board

- Dimiter Voutchev – Chairperson of the Management Board and Executive Director
- Anna Tsankova – Boneva – Member of the Management Board and Executive Director;
- Todorina Doktorova – Member of the Management Board and Executive Director;
- Savka Yondova – Member of the Management Board and Executive Director;

The total amount of remunerations received over the reporting year by members of the Supervisory Board is BGN 72 thousand (respectively BGN 61 thousand in the prior year). The total amount of remunerations received over the reporting year by members of the Management Board is BGN 431 thousand (respectively BGN 428 thousand in the prior year).

The members of the Management Board and of the Supervisory Board have no rights granted for acquisition of Bank shares and bonds, as they or their related persons have not concluded with the Bank any contracts beyond the usual activity or significantly deviating from the market conditions.

3. ***Dividend policy***

The Bank has not paid any dividends. The 2020 result has been allocated for coverage of past-year losses.

4. Events after the date of the statement of financial position

In 2021, the measures to limit the spread of the COVID-19 pandemic were gradually lifted. Nevertheless, activities in most sectors of the real economy were far from what was achieved in 2019. The slow rate of vaccination of the local population and the unpredictable dynamic of the new strains of the virus make it difficult to estimate properly the pandemic's ultimate impact on the Bank's business and, accordingly, the parameters of its future operations. The general expectation is that the approaching maturities of loans renegotiated (as part of the "Procedure for deferral and settlement of liabilities payable to banks and their subsidiaries in connection with the state of emergency declared by the National Assembly in relation to the COVID-19 pandemic" adopted by the BNB) will have a negative impact on lending activity, the quality of already disbursed loans, and the value of most assets. It is the management's initial assessment that at this stage it is not possible to identify circumstances and factors questioning the applicability of the going concern principle for the Bank.

In accordance with the recommendations of the Bulgarian government and the Management Board of the Bulgarian National Bank, the Bank's management has kept in place most measures taken in 2020 to preserve the health and life of its employees and clients.

No significant events have occurred since the date of preparation of the statement of financial position that would result in adjustments or additional disclosures in the separate or consolidated financial statements.

5. Participation of Board Members in other companies

Supervisory Board:

- Arthur Sterne – Chairperson of the Supervisory Board: shareholder and General Manager of Global Prime OOD, UIC 203874715;
- Thomas Michael Higgins – Member: shareholder (46% of the capital) in EASTISOFT Inc.; shareholder (13.3% of the capital) in YATOTO Inc. /USA/; Member of the Board of Directors and shareholder (27.5% of the capital) in EMP Invest Bulgaria AD with UIC 203120042; Member of the Board of Directors of YATOTO EOOD with UIC 203831062, Member of the Control Board of the Business and Education Foundation with UIC 131468813;
- Chris Matlon – Member of the Board of Directors of America for Bulgaria Foundation (non-profit).

Management Board:

- Dimiter Voutchev – Chairperson: owner and General Manager of Delta Capital EOOD, UIC 175278566; Member of the Board of Directors of the America for Bulgaria Foundation (non-profit); Member of the Board of Directors of Partners Bulgaria Foundation (non-profit);
- Anna Tsankova-Boneva – Executive Director: owner of all shares in Fine Line EOOD, UIC 201758352;
- Savka Yondova – shareholder in SE Zlaten ogan OOD, UIC 121215822

V. Responsibility of the management

The prepared annual financial statements are in compliance with the statutory requirements and the International Financial Reporting Standards (IFRS) adopted by the European Union and applicable in the Republic of Bulgaria. They reflect in a reliable manner the property and financial condition of the Bank.

Upon preparing the annual financial statements (AFS), the management acknowledges that:

- the statements have been developed in compliance with the International Financial Reporting Standards;
- the statements have been prepared in accordance with the going concern principle and provide a truthful representation;
- the accounting policy applied is appropriate and has been consistently applied;
- the necessary judgements and assumptions made are in accordance with the prudence concept;
- all measures necessary for protection of the Bank’s assets and prevention of fraud have been taken.

VI. Activities in the field of research and development

Due to the specifics of its operations, in 2020 the Bank did not perform any activities in the field of research and development.

VII. Activity as investment intermediary

Tokuda Bank AD performs services in its capacity as investment intermediary. The Bank intermediates the purchase and sale of financial instruments traded on a regulated market (Bulgarian Stock Exchange AD) and outside the regulated market. The Bank is a member if BSE and of Central Depository AD, and offers services as a Registration Agent. In its capacity as investment intermediary, the Bank meets certain requirements for the protection of customer’s interests, in accordance with the provisions of the Markets in Financial Instruments Act (MFIA), Ordinance 38 on the requirements to operation of investment intermediaries, and Ordinance 58 on the requirements on protection of customers’ financial instruments and cash, on product management and provision or receipt of consideration, commissions, other cash or non-cash rewards, issued by the Financial Supervision Commission (FSC). The Bank has established and applies an organisation for concluding and fulfilling contracts with customers, for compliance with the requirement for customers’ data, accountability and storage of customers’ assets in compliance with the statutory requirements, and in particular the provisions of Ordinance 38, Art. 28-31, and Ordinance 58, Para 3. Tokuda Bank has established and applies internal rules and procedures to ensure compliance with the legislation applicable to its operation as an investment intermediary.

The prepared Annual Management Activity Report and the Corporate Management Declaration are in compliance with the requirements of Chapter Seven of the Accountancy Act and Art. 1000 n, Para 8 of the Public Offering of Securities Act (POSA).

In 2020 and up to the date of this Report, there have been no tax consultations or any other forbidden services performed by either of the two audit firms – AFA OOD and ABVP-AUDIT STANDARD OOD, which carried out a joint independent financial audit of the Bank's annual financial statements for 2020. Over this period, the audit firms and their network companies have carried out the following permitted services:

- Agreed-upon procedures for the application at the Bank of Ordinance 10 of the Bulgarian National Bank (BNB) for the period 1 January 2020 – 31 December 2020 in compliance with the requirements of the International Standard on Related Services (ISRS) 4400 "Engagements to perform agreed-upon procedures regarding financial information" – the engagement was undertaken and performed jointly by the two audit firms, AFA OOD and ABVP-AUDIT STANDARD OOD;

By virtue of a Resolution of the Management Board of Tokuda Bank AD:

Dimiter Voutchev
Member of the Management Board and
Executive Director

Anna Boneva
Member of the Management Board and
Executive Director

ТОКУДА БАНК АД
СОФИЯ

Sofia, 19 May 2021

CORPORATE GOVERNANCE STATEMENT OF TOKUDA BANK AD

(pursuant to Article 40 of the Accountancy Act and Article 100n(8) of the Public Offering of Securities Act (POSA))

1. Information on compliance with the Corporate Governance Code (Article 100n(8)(1)(a) of POSA)

In 2020, Tokuda Bank AD (the Bank) continued to comply, where appropriate, the National Corporate Governance Code (NCGC, the Code), published on the web page of the Bulgarian Stock Exchange AD (BSE), approved by means of decision No 461-ККУ dated 30.06.2016 of the member of the Financial Supervision Commission (FSC) acting as Deputy Chair of the FSC responsible for the Supervision of Investment Activities Directorate, as corporate governance code pursuant to Art. 100m, Para 8, p.1, letter "a" from POSA.

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

2. Information on application of additional corporate governance practices (Art. 100m, Para 8, p. 1, letter "c" of POSA)

The Bank considers that the provisions of the National Corporate Governance Code are sufficient to cover the requirements of good corporate governance. Considering this, the Bank does not apply additional corporate governance practices other than those included in the Code.

3. Description of the main characteristics of the internal control and risk management systems in relation to financial reporting (Art. 100m, Para 8, p.3 of POSA)

3.1. The Bank has established an adequate system for identification, management and control of its risk profile, including:

- organizational structure for assessment and management of risk sensitivity;
- rules and methods for risk assessment and control;
- parameters and limits for transactions and operations related to credit, liquidity and market risks;
- a reliable system for accounting and management information, which allows identification and control of different types of risks.

The system for risk management performs preventive functions regarding potential losses and control over the amount of incurred losses.

The Bank's risk management and control organisation corresponds to the nature and volume of operations, the inherent risks and the degree and scope of the control over operations exercised by the management. The activities it includes may be summarised as follows:

- management control and control environment;
- risk control;
- control activities and allocation of duties;
- information and communication;
- monitoring and correction of deviations.

The Bank's development strategy is determined by the Supervisory Board (SB). Based on the strategy, the Bank's risk appetite and risk profile are determined, which define its business model. The business model is subject to the risk appetite within the limits and thresholds established by the Management Board (MB) with respect to the significant risks which the Bank faces. Based on the strategy, risk appetite and profile of the Bank, the MB approves a plan and budget to accomplish the strategy, which includes targets, deadlines and measures to achieve the targets.

The competent bodies whose decisions on management lead to the formation of the Bank's risk profile:

- SB – performs overall supervision over risk management; approves the Bank's development strategy, on which the institution's risk profile and risk appetite depends; approves a plan, budget and measures for the realization of the strategy and monitors their implementation. It appoints the head of the Risk Monitoring and Management Division

(RMMD) and receives periodic and regular reports from the management, including capital management and capital plan; approves and confirms the capital plan prepared by RMMD and approved by the MB.

- MB – responsible for overall approach to risk management and for the approval of the plan, budget, principles and specific methods, techniques and procedures for risk management, as well as for approving the capital plan.
- RMMD – a specialised Bank unit for risk analysis, management and monitoring. The Division's functions are independent from the business units and from the units performing legal compliance and internal audit functions. The Division reports directly to the Bank's SB.

The Risk Monitoring and Management Division performs activities in the following areas: maintenance of database of information needed for risk assessment; monitoring and control of risks; regular control over compliance with limits; methodological support for other Bank's units related to application of internal rules and procedures for regular assessment and control of risks; compliance with internal rules and procedures for risk management; update of procedures for risk management and tools for controls of the risks in the Bank.

3.2. The main principles and actions, aims, rights and responsibilities, reporting lines and types of audits performed by the Internal Audit are regulated in the Rules for organisation and activities of the Internal Audit specialised service at the Bank. The rules are compliance with the applicable regulations of: the Bulgarian National Bank Act, the Credit Institutions Act, Ordinance 10 of BNB regarding the organisation, management and internal control in banks, the Financial Supervision Commissions Act, the Public Offering of Securities Act, the Special Purpose Investment Companies Act, the Measures Against Market Misappropriation with Financial Instruments Act, the Markets in Financial Instruments Act.

The Internal Audit supports the MB and SB in the performance of their function by providing objective, independent and reasonable assurance that the Bank is in a condition to achieve internal control environment relevant to its goals. The Internal Audit performs assessment and recommends improvements to the efficiency of the corporate governance system, risk management and control processes by:

- performing assurance engagements and providing an independent and objectively documented opinion regarding:
  - o the reliability, accuracy, completeness and timeliness of financial reporting and management information;
  - o the effectiveness and efficiency of operations and of achieving operational and financial objectives and safeguarding of assets;
  - o legal compliance with the applicable statutory and regulatory provisions.
- making suggestions for remediation of identified deficiencies and weaknesses in the control environment;
- performing advisory engagement by providing recommendations for improvement of existing practices and procedures and for development of effective control activities in the process of development of new procedures.
- performing extraordinary audit engagements and audits for fraud prevention.

The Internal Audit reports administratively to the MB and functionally to the SB of the Bank, which allows attaining the necessary degree of independence and effective performance of its responsibilities. The Head of the Internal Audit has direct and unrestricted access to the MB and SB.

3.3. As part of the Bank's operational activities, internal financial control is established and carried out – ex-ante, current, and ex-post control. There are established systems for internal control over financial reporting.

Ex-ante control is carried out over all types of accounting transactions and precedes their performance with the aim to ensure their lawful implementation.

Current control for operations with high level of operating risk is performed in the process of execution of banking transactions and aims to exclude deviations from established rules and procedures for performance of accounting operations, their compliance with legal requirements and timely correction of any errors, etc.

Ex-post control comprises all actions and measures with the aim of timely detection of unlawful activities and transactions, omissions and errors, fraud, waste of assets and other irregularities which were committed despite the measures included in the ex-ante and current control.

The internal control environment established at the Bank ensures the reliability of the financial reporting information. The functions of control over financial reporting include: organizational and operating independence of the unit responsible for financial reporting from the business units; alignment between the organization structure and the process for control and management of the related risks by strict definition of responsibilities; integrated information systems, which provide detailed breakdowns and report; developed framework of procedures and rules related to financial reporting and information security; definition and monitoring of approval limits and system for internal control processes; independent assessment for compliance performed by the Internal Audit Division and the legal compliance division.

3.4. The risk assessment and monitoring function is performed by the Risk Monitoring and Management Division. The Division receives and analyses information about the assessment, control and monitoring of the Bank's inherent risks, including:

- Credit risk;
- Market and liquidity risk;
- Operational risk.

Sources of information for the Division for analysis and assessment of risks:

- IT systems and software used by the Bank – general banking and accounting system;
- The business units related to new loans proposals and data for performing loan portfolio monitoring;
- The Treasury and Financial Markets Division about information concerning the banking and commercial securities portfolio;
- The Legal Division (including Prevention of Money Laundering Department) with respect to legal risks, incl. litigation risks and risk of non-compliance of the internal regulations, banking products, etc. with the legislation and regulatory framework;
- The Banking Security Department with respect to operational risks, including risk of fraud and other potential risks related to the Bank's security;
- Chief Economist – summarised information on a daily basis about the development of the deposit base and attracted funds;
- All employees of the Bank, clients and other external parties with respect to information for operational events and submitted complaints.

The Risk Monitoring and Management Division receives requests for analysis and opinion with respect to transactions that lead to additional credit or market risk through:

- provision of new loan exposures;
- approval of new or change/discontinuing of existing loan or deposit products;
- executing new deals and purchases of financial instruments;
- establishing correspondence relations and opening new Bank exposures with other banks;
- other proposals for taking/terminating or change in the effect of risks to which the Bank is exposed.

Based on the received proposals, the Division prepares opinions addressed to the respective committees and the MB, which perform review and take decision on the proposals in compliance with the Bank's internal policies and procedures, the rules for activities of the committees and the approved limits for risk taking by different bodies.

It also prepares periodic and current reports to the SB regarding the Bank's capital adequacy, based on quarterly reports.

Regarding the operational risk, the Division collects information from all employees and external clients regarding operational events that have occurred and maintains a database of registered operational events and claims. The information is reviewed regularly by the Risk Committee and the Risk Monitoring and Management Division periodically informs the MB of any significant operational events and identified deficiencies in the activities which expose the Bank to operational risk.

Units which perform risk-taking functions:

- MB and SB approve measures and tools for implementation of the Bank's strategy in compliance with its risk profile and appetite and provide final approval/rejection of the proposals for new loans resulting in significant exposure (at an amount equal to or exceeding BGN 500,000), changes in terms of existing loans, measures for exiting of problem exposures, new investments in securities and other assets, etc.;
- The Business units, including the branch network and the departments which provide lending services, perform the following:
    - Decisions of the Credit Council and the MB for approval of new loans, changes in terms of existing exposures, actions for decreasing non-performing exposures, etc., made based on risk opinions provided by the RMMD;
    - Decisions of the Credit Council and the MB for introduction of new loan or deposit products, discontinuance or changes to existing loan and deposit products;
- The Treasury and Financial Markets Division implements decisions of the Assets and Liabilities Committee (ALCO) taken based on the opinions provided by the Risk Monitoring and Management Division with respect to purchases of securities for the portfolios of the Bank and establishment of relations with counterparts or deposit of funds with other banks, and if necessary provides support in establishing correspondent relations.

4. **Information per Art. 10, Paragraph 1, letters "c", "d", "f", "h" and "i" of Directive 2004/25/EC of the European Parliament and of the EU Council of April 21, 2004 related to takeover bids (pursuant to Art. 100m, Para 8, p. 4 of POSA)**

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

As at 31 December 2020, the Bank has no direct or indirect shareholdings within the meaning Art. 85 of Directive 2001/34/EC.

As at 31 December 2020, the shareholder structure of the Bank is as follows:

Shareholder	Number of shares	Share in capital (%)
Tokushukai Incorporated	6,796,250	99.94
Gama Holding Group AD	3,750	00.06
Total	**6,800,000**	**100.00**

Dr. Torao Tokuda is the majority owner of Tokushukai Incorporated, Tokyo, Japan. Therefore, Dr. Torao Tokuda is considered to the beneficial owner – natural person of the Bank's capital (a person who directly or indirectly holds a sufficient percentage of shares or voting rights pursuant to §2, Para 1, item 1 of the Supplementary Provisions to the Measures Against Money Laundering Act), which has been duly announced in the Commercial Registry and the Register of Non-profit Legal Entities.

4.2. The Bank has not issued shares with special rights of controls and has no shareholders, which own shares with special control rights;

4.3. The Statute of the Bank does not specify restrictions over voting rights of shareholders.

4.4. The rules that establish the appointment or change of the MB and SB and changes in the Statute:
- Statute of Tokuda Bank AD;
- Policy of Tokuda Bank AD on identification, management and prevention of conflicts of interests;
- Policy on selection and assessment of the fitness of the members of the Management Board and key employees of Tokuda Bank AD;
- Rules for activities of the Supervisory Board of Tokuda Bank AD;
- Rules for activities of the Management Board of Tokuda Bank AD.

4.5. The powers of the members of the Supervisory Board and Management Board of the Bank are established in:
- Statute of Tokuda Bank AD;
- Rules for establishment of the responsibilities of the Management Board of Tokuda Bank AD;
- Rules for activities of the Management Board of TOKUDA BANK AD;
- Rules for activities of the Supervisory Board of TOKUDA BANK AD.

4.6. The share capital of the Bank may be increased by means of a decision of the General Meeting of Shareholders, or by a decision of the Management Board, approved by the Supervisory Board, according to the Statute's provisions. The share capital of the Bank may be decreased by means of a decision of the General Meeting of Shareholders, made by a qualified majority of 2/3 (two thirds) of the shares represented. The share capital of the Bank may be decreased upon the preliminary written approval of BNB, following the statutory procedure: 1) through decrease of the nominal value of the shares; 2) through redemption of shares.

5. **Information regarding composition and functions of administrative, management and supervisory units and their committees (pursuant to Art. 100m, Para 8, p. 5 of POSA)**

The Bank has a two-tier management system, which includes a SB and a MB with the following responsibilities, power and composition:

The SB currently consists of three members, elected by the General Meeting of Shareholders for a five-year term. According to the Bank's Statute, members of the SB may be re-elected without restrictions. A member of the SB may be a physically able natural person, and a legal entity, which meet the requirements of the law and bylaws of the Bulgarian National Bank and have been approved thereby. SB performs its powers and responsibilities in compliance with the applicable legal requirements, the Bank's Statute, decision of the Shareholders and the Rules for its activities. The SB appoints and releases the members of the Management Board and approves the Executive

Directors.

The members of the SB as at 31 December 2020 are:

- Arthur Stern – Chairperson of the SB;
- Thomas Michael Higgins – Member of the SB;
- Chris John Matlon – Member of the SB.

The MB consists of 3 to 5 members, and their number is determined by the SB. Members of the MB may only be individuals who meet the requirements of the law and bylaws of the Bulgarian National Bank and have been approved thereby. Members of the MB are elected by the Supervisory Board for a 5-year term and may be re-elected without restrictions, and may be dismissed and replaced before their term expires at any time by means of a decision of the SB. The MB operates according to the Statute of the Bank and the Rules for its activities and performs tasks and activities required by law, by decision of the Shareholders and the Supervisory Board. The MB is a permanently-functioning collective body for management and representation of the Bank, which operates under the supervision of the SB and in compliance with the established vision, goals and strategy of the Bank.

As at 31 December 2020, the members of the MB are:

- Anna Tsankova-Boneva – Member of the MB and Executive Director;
- Todorina Doktorova – Member of the MB;
- Dimiter Voutchev – Member of the MB and Executive Director.

The members of the MB and SB have no rights for acquisition of shares or bonds of the Bank, as well as they and their related parties have no concluded contracts with the Bank outside of the ordinary activities or under terms outside the market terms.

The activity of the MB and SB is supported by permanent committees established at the Bank (listed herein below) – consultants for assessment and decision making on lending activity, liquidity and securities portfolios, asset profitability, risks, and other aspects of the Bank's operations.

As at 31 December 2020 and at present, the following committees are active within the Bank's structure:

The Credit Council (CC) in its capacity as a collective body, in acordance with the approved rukes on its work, the Bank's lending policy and the applicable legislative provisions:

- reviews and takes decisions for approval of new loan exposures, changes in existing exposures (renegotiated and restructured), taking measures for exit the existing exposures, enforecement of problem exposures of clients or group of related clients with exposures up to 10% of the Bank's capital base;
- proposes for review and approval by the MB loan proposals for exposures exceeding 10% of the capital base;
- reviews and submits to the MB proposals for collateral acquisitions by the Bank under bad debts, cession of loans and write off of loans under existing exposures.

The Credit Council (CC) is structured in three levels and the power of each level is determined in the "Rules for Activities of the Credit Council of Tokuda Bank AD" and in the "Policy for Credit Activity of Tokuda Bank AD". In its operations, the CC is governed by the requirements of the Law on Credit institutions and other legislation, which regulates the credit actvities, as well as the internal policies and procedures of the Bank.

The first level of the Credit Council consists of: Lending Expert/ Retail Banking Team Manager/ Retail Banking Regional Manager/ Corporate Banking Regional Manager, who is proposing the respective loan transaction, and the Head of the Credit Risk Department – Small and Medium-Sized Customers in the Risk Monitoring and Management Division or Loans to Individuals Team Manager/ Retail Lending Division Head, in accordance with the "Rules for granting loans to individuals".

The second level of the Credit Council consists of: Executive Director in charge of the Corporate Banking Division, Corporate Banking Division Head – votes on loans to legal entities, Loans to Individuals Team Manager in the Retail Banking Division, Retail Lending Division Head – votes on loans to individuals, Deputy Head of the Risk Monitoring and Management Division, Chief Legal Advisor in the Legal Division.

The third level of the Credit Council consists of: Executive Director in charge of the Corporate Banking Division, Executive Director, Corporate Banking Division Head, Deputy Head of the Risk Monitoring and Management Division, Head of the Legal Division.

The Committee for Analysis, Classification and Impairment (CACI) is the Bank's competent body on monitoring, measurement and classification of financial assets and contingent liabilities, and on determining impairment losses and provisions, which makes the decisions on classification and determining impairment losses on financial assets and determined provisions under contingent liabilities. CACI analyses the ground for reclassification of credit exposures and controls compliance with BNB's requirements and the internal rules in this area. CACI comprises:

The current members of the Committee are as follows:

- Executive Director – Chairperson;
- Head of Finance and Accounting Division – Member;
- Head of Loan Administration Division – Member;
- Head of Receivables Department – Member;
- Chief expert in Credit Risk – Member;
- Legal advisor in Receivables Department – Member

The Assets and Liabilities Management Committee (ALMC) is the main body for management of the liquidity of the Bank. It bears direct responsibility for the liquidity state and daily liquidity management based on decisions of the MB, as well as for the current management of the assets and liabilities. In compliance with the Rules on the organisation and activity of the Assets and Liabilities Management Committee of the Bank, ALMC consists of seven members, as follows:

- Executive Director – Chairperson;
- Executive Director – Deputy Chairperson;
- Head of Risk Monitoring Division;
- Head of Corporate Banking Division;
- Head of Office Operations and Customer Service Division;
- Head of Treasury and Financial Markets Division;
- Chief economist.

The Risk Management Committee (RMC) is a specialized internal body of the management of the Bank in the area of management and control of the exposure of the Bank to credit, market (including interest, liquidity, currency), operational and other risks. The activities of the Risk Committee serve to fulfill the Bank's goals and tasks, by supporting the MB and Executive Directors with suggestions and decisions, for the purpose of effective risk management. RMC is comprised of:

- Head of Monitoring and Risk Management Division – Chairperson;
- Head of Finance and Accounting – Member;
- Chief economist – Member;
- Head of Loan Administration Division – Member;
- Chief Legal Advisor in Legal Division – Member.

The Audit Committee, established pursuant to the requirements of the Independent Financial Audit Act, is a permanent specialised independent advisory body at the Bank, whose aim is to monitor the effectiveness and adequacy of the financial reporting processes, risk management and control, including internal audit, in accordance with the applicable legislation and best practices. The Audit Committee is appointed by the General Meeting of Shareholders of the Bank, which also determines its term and number of members.

The Audit Committee performs its activities in accordance with the Rules on its activity approved by the Bank's SB, and reports its activity to the General Meeting of Shareholders once a year, together with the approval of the annual financial statements. The Audit Committee monitors the financial reporting and the independent audit of the Bank, the effectiveness of the internal control systems and risk management, recommends the selection of a registered external auditor and monitors his independence.

As at 31 December 2020, the members of the Audit Committee are:

- Veneta Ilieva – Chairperson;
- Rumyana Asenova – Member;
- Violeta Milusheva – Member.

6. Description of the diversity policy applied with respect to administrative, management and supervisory bodies (pursuant to Art. 100m, Para 8, p. 6 of POSA)

The Bank in its capacity as a credit institution under the CIA is subject to special statutory criteria in the selection and approval of applicants for Board Members of the Bank, including, but not limited to, education, qualification and professional experience, reliability and suitability, etc.

The Bank ensures diversity by means of:

- balanced age and gender structure at management and control levels;

- level of education and diverse areas of knowledge (finance, law, information technologies) corresponding to the national regulatory requirements and aimed to include a wide range of skills and competences;
- professional experience adequate to the respective positions, in compliance with the regulatory requirements, in the meantime aiming to maintain a balance between experience, professionalism, familiarity with the activity, as well as independence and objectivity in sharing opinions and decision making.

In addition, the diversity at the Bank is also related to continuity of historical traditions and fast adaptation to the latest technologies in the field of financial services.

ТОКУДА БАНК АД СОФИЯ

Dimiter Voutchev
Member of the Management Board and
Executive Director

Anna Boneva
Member of the Management Board and
Executive Director

Sofia, 19 May 2021

INDEPENDENT AUDITORS' REPORT

To the shareholders of Tokuda Bank AD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Basis for Opinion

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

Key Audit Matters

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

<table>
<tr><th>Key Audit matter</th><th>How this key audit matter was addressed in our audit</th></tr>
<tr><td colspan="2">Impairment of credit losses on loans granted to and receivables from customers according to the requirements of IFRS 9 Financial Instruments (IFRS 9)

The Bank's disclosures regarding the impairment of credit losses on loans granted to and receivables from customers are included in Note 3.2.1.4. Impairment of financial assets, Note 3.1.2. Determining expected credit losses on loans to and receivables from customers, Note 29.2. Credit risk and Note 8 Loans granted to and receivables from customers to the financial statements.</td></tr>
<tr><td>Loans granted to and receivables from customers represent a substantial proportion (57%) of the Bank's total assets as at 31 December 2020. The gross carrying amount of these loans to and receivables from customers as at 31 December 2020 is BGN 234,460 thousand, and the respective allowance for accumulated credit losses therefrom is BGN 9,263 thousand. The Bank applies an impairment model for credit losses (ECL) on loans to and receivables from customers on an individual and portfolio basis, in accordance with IFRS 9.

The application of such a model to determine the impairment of credit losses on loans granted and receivables to customers is related to the application of an increased complexity in the calculations and assumptions, as well as the involvement of significant judgements on the part of the Bank's management regarding the identification and the amount of expected credit losses. The key assumptions, judgements and parameters in determining ECL are related to the development of quantitative and qualitative indicators for:

• determining a significant aggravation of the credit quality of exposure, presence of low and/or significantly increased credit risk, and</td>
<td>In this area, our audit procedures included, among others:

• Inquiries, walk-throughs and obtaining an updated understanding of the Bank's process of monitoring and impairment of credit losses on loans granted to and receivables from customers in the Bank, incl. additional procedures introduced due to the specific social and economic circumstances resulting from the COVID-19 pandemic. We focused on the methodology applied by the Bank, on the internal policy and impairment model used, as well as on changes related thereto made during the current year. Inquiries to Bank experts responsible for the modelling and management of credit risk.

• Review and assessment of internal procedures and key controls at organisation level regarding the impairment policy and model, including documentation supporting the model, as well as monitoring and update frequency and justification of the parameters applied.

• Obtaining an updated understanding, assessing the design and application, and testing the operational effectiveness of certain key controls</td></tr>
</table>

respectively of exposures with objective evidence for impairment – to allocate the individual credit exposures in the respective stages (Stage 1: Exposures without a significant increase in credit risk; Stage 2: Exposures with a significant increase in credit risk, but without objective evidence for impairment; and Stage 3: Exposures with objective evidence for impairment);

- determining the components "probability of default" (PD), "loss given default" (LGD) and "exposure at default" (EAD). The higher degree of approximation, judgements and estimation uncertainty are inherent to calculations of expected credit losses of loans and advances on a collective (portfolio) basis in Stages 1 and 2, which depends on the extent to which the Bank has sufficient supporting historical information to test the assumptions used and calibrate the accuracy of the PD and LGD estimates in the impairment model;
- the scope and completeness of inputs and the computation logic applied, since the Bank applies model based on incoming parameters from both internal and external sources;
- inclusion of information about the future development of macroeconomic factors, given different scenarios, in determining ECL estimates;
- the assumptions and judgements applied by the management in the review of individually significant credit-impaired exposures at Stage 3, related to the set of probability scenarios regarding the amounts and time allocation of future cash flows and the end outcomes, and regarding the future sale of and collection of cash flows from collaterals;
- determining the impact of the social and economic consequences of the COVID-19 crisis, including the moratorium measures and other events in year 2020, with respect to the assumptions, judgements, parameters and resulting cash flows applied in the model.

appropriate for the audit, over the process of monitoring, staging, and determining the amount of impairment of credit losses on loans to and receivables from customers. We involved our IT experts in the testing and assessment of general IT controls in the Bank's internal information system, used in the process of monitoring loans to and receivables from customers and determining expected credit losses.

- Assessing the consistency of application and continuing relevance of the methodology, the specific models to identify credit losses and calculate impairment, as well as the key assumptions and judgements used therein, in accordance with the requirements of IFRS 9 and in the context of the specifics of the Bank's loan portfolio and the availability of internal historical information, as well as data about the parameters' future development. Moreover, reasonableness analysis and assessment were carried out of:
  - the relevance of the criteria to identify a significant increase in credit risk;
  - the appropriateness of the staging of exposures, in accordance with the classification criteria set by the Bank;
  - the calculations of the indicators "probability of default" (PD), "loss given default" (LGD) through checking the assumptions and outputs used;
  - the approach to using forecast data in the models; and
  - accounting for the social and economic effects of the progress of the COVID-19 pandemic.
- Analysis of the appropriateness of the results obtained as changes to the impairments stated in the context of our understanding of the development of the Bank's loan portfolios and the quality of the available, data. We also tested the mathematical accuracy of certain formulas used to calculate impairment in the models.

Due to the significance of the above described circumstances that: a/ the materiality of loans granted to and receivables from customers as a reporting item for the Bank's financial statements, and b/ the complexity, significant multiple judgements and assumptions, and the high inherent uncertainty of estimates of expected credit losses laid down in the impairment model for loans to and receivables from customers on an individual and portfolio basis, according to the requirements of IFRS 9, we have considered this matter as a key audit matter.	• Analysis of the Bank's loan portfolio and other analytical procedures regarding its structure, composition and development trends, incl. the interrelation of trends in the expenses stated for impairment losses versus trends in loan portfolio development. • Performing detailed tests and analysis, based on a risk-based sample of loans at all stages, for the purpose of assessing the relevance of the impairment charged of credit losses. For the respective exposures in the sample, the following audit procedures were performed: - analysis of the financial position and results of borrowers, and inspection of information and documents related to loan servicing; - review of collateral valuation reports of the respective exposures; for some collaterals, we used our expert appraisers regarding the assumptions and methods applied in the valuations of collateral realisable value; - analysis and assessment of the key assumptions and judgments made by the Bank's management upon calculation of specific provisions for credit losses on individual exposures at Stage 3; - testing and recalculation of the mathematical accuracy of the established amounts of expected credit losses on individual items, incl. versus certain changes in given parameters. • Performing audit procedures for subsequent events focused on the development of loans granted to and receivables from customers from the abovementioned sample after the reporting date, so as to assess the consistency of the assumptions used by the Bank with respect to expected future cash flows. • Assessment of the relevance, completeness and adequacy of the Bank's disclosures in relation to the impairment of credit losses on loans granted to and receivables from customers.

Estimates of the fair value of non-financial assets used for the purpose of determining the fair value of review for impairment of these assets

Information about the fair value estimates of financial assets used for the purpose of fair value measurement of review for impairment is disclosed in *Note 9* ***Non-current assets held for sale****, Note 12* ***Investment property****, Note 13* ***Other assets****, and Note 29.5* ***Fair value*** to the financial statements.

As at 31 December 2020, the Bank states non-current assets held for sale, at the amount of BGN 2,605 thousand, investment property at the amount of BGN 15,476 thousand, and other assets acquired under non-serviced loans, at the amount of BGN 8,710 thousand, consisting mainly of real estate acquired in exchange for debt from collaterals.

The Bank's accounting policy for the subsequent measurement of investment property following their recognition is based on a fair value model in accordance with IAS 40. In view of the sensitivity and specifics of the real estate market, on an annual basis the Bank has a policy of performing annual reviews and fair value measurement of non-current assets held for sale, and of the other assets acquired from non-serviced loans, for the purpose of their impairment test (based on their fair value less costs for disposal), and of the fair value of investment property – for the purpose of their subsequent measurement.

Fair value measurement is based on valuations prepared by appraisers appointed by the Bank and/or independent real estate valuators assigned thereby. In the calculation of these measurements, multiple inputs, assumptions and models are used, and the fair value determined on this base is classified within Level 3 of the fair value hierarchy according to IFRS 13. The assumptions used to determine the fair value as at 31 December 2020 are subject to a significant uncertainty related to the effects of the COVID-19 pandemic.

Due to the fact that the fair value estimates of non-financial assets (investment property, non-current assets held for sale and other assets) of the Bank is characterized by higher uncertainty related to the inputs used and the assumptions for the purposes of fair value measurement and/or review for

In this area, our audit procedures included, among others:

- Assessing the objectivity, independence and competence of the external appraisers assigned by the Bank.
- For a sample of non-financial assets which are subject to impairment review and test or subsequent measurement at fair value, performing analysis and assessing the inputs applied regarding real estate, by also involving our internal valuation experts in the review and analysis of the valuation methods used, the information and key assumptions used in the valuation, including for the purpose of accounting for the social and economic consequences of the crisis related to the COVID-19 pandemic spread, where applicable.
- For a sample of real estate, performing analysis by our internal valuation experts on whether the fair value measured is consistent with intervals of comparable market prices of similar assets.
- Assessment of the relevance and appropriateness of the Bank's disclosures of fair value estimates of non-financial assets (investment property, non-current assets held for sale and other assets) used for the purpose of fair value measurement or review for impairment.

impairment, which may have a significant effect on both the carrying amount of non-financial assets, and the calculation of the Bank's capital adequacy as at 31 December 2019, we have determined this to be a key audit matter.	

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

Management is responsible for the other information. The other information comprises the management report and the corporate governance statement, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as applicable in the EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure of information 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 responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the IFAA applicable in Bulgaria. In accepting and performing the joint audit engagement, in respect to which we are reporting, we have considered the Guidelines for Performing Joint Audits, issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of the Registered Auditors in Bulgaria.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Financial Statements and Auditors' Report Thereon* section, in relation to the management report and the corporate governance statement, we have also performed the procedures added to those required under ISAs in accordance with the *"Guidelines Regarding New Extended Reports and Communication by the Auditor"* of the professional organisation of Registered Auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act applicable in Bulgaria and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.

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

Based on the procedures performed, our opinion is that:

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

Additional reporting in accordance with Ordinance No 58/2018 the Financial Supervision Commission

Statement in relation to Art. 11 of Ordinance No 58/2018 of FSC on the requirements for protection of clients' financial instruments and cash, for product management and for granting and receiving consideration, commissions, other cash and non-cash benefits

Based on the audit procedures performed and the obtained knowledge and understanding of the Bank's operation and the context of our audit of the financial statements as a whole, the organisation established and applied in relation to the safeguarding of clients' assets complies with the requirements of Art. 3-10 of Ordinance No 58 of the FSC regarding the Bank's activities in its capacity as an investment intermediary.

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

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

- AFA OOD and ABVP-AUDIT STANDARD OOD were appointed as statutory auditors of the financial statements of the Bank for the year ended 31 December 2020 by the General Meeting of Shareholders held on 30 June 2020, for a period of one year.
- The audit of the financial statements of the Bank for the year ended 31 December 2020 represents a third consecutive statutory audit engagement carried out by AFA OOD and a fourth total statutory audit engagement carried out by ABVP-AUDIT STANDARD OOD.

- We hereby confirm that the audit opinion expressed by us is consistent with the additional report dated 19 May 2021, provided to the Bank's Audit Committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that no prohibited non-audit services, referred to in Art. 64 of the Independent Financial Audit Act, were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.

Audit firm
AFA OOD:

Valia Iordanova

General Manager,
Legal representative
Registered Auditor in Charge of the Audit

Audit firm
ABVP-AUDIT STANDARD OOD:

Sevdalina Paskaleva

General Manager,
Legal representative
Registered Auditor in Charge of the Audit

38, Oborishte Street

1504-Sofia, Bulgaria

Nadezhda I Residential Area, block 173,
entr. B
1202- Sofia, Bulgaria

19 May 2021

This is a translation from Bulgarian of the Independent Auditors' Report on the Financial Statements of Tokuda Bank AD for the year ended 31 December 2020.

TOKUDA BANK AD
STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

(all amounts are in BGN'000)

	Notes	31.12.2020	31.12.2019
ASSETS			
Cash and balances with the Central Bank	4	49,461	53,193
Loans and advances to banks	5	31,190	26,163
Financial assets at FVPL	6	9,529	37,434
Debt instruments at FVOCI	7	38,753	26,941
Equity instruments at FVOCI	7	293	293
Loans and advances to customers	8	225,197	208,029
Non-current assets held for sale	9	2,605	2,674
Investment property	11	15,476	12,751
Property, equipment and right-of-use assets	10	3,908	4,380
Intangible assets	10	824	695
Deferred tax assets	15	92	36
Other assets	12	19,471	20,354
Total assets		**396,799**	**392,943**
LIABILITIES			
Deposits from banks	13	45	113
Deposits from customers	14	351,063	346,276
Other liabilities	16	3,452	3,837
Total liabilities		**354,560**	**350,226**
EQUITY			
Share capital	17	68,000	68,000
Reserves	17	3,580	2,754
Accumulated loss		(29,341)	(28,037)
Total equity		**42,239**	**42,717**
Total liabilities and equity		**396,799**	**392,943**

The accompanying notes from 1 to 32 form an integral part of the annual financial statements.

The annual financial statements on pages from 1 to 64 were approved for issue by the Management Board of Tokuda Bank AD and were signed on 19 May 2021 by:

Anna Tsankova-Boneva Member of the Management Board Executive Director	Dimiter Voutchev Member of the Management Board Executive Director	Svetlin Todorov Finance Director

Financial statements on which our auditors' report was issued dated 19 May 2021

AFA OOD

ABVP - AUDIT STANDART OOD

TOKUDA BANK AD
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

(all amounts are in BGN'000)	Notes	2020	2019
Interest income		10,197	10,620
Interest expense		(1,099)	(1,569)
Net interest income	18	**9,098**	**9,051**
Fee and commission income		3,913	3,974
Fee and commission expense		(277)	(259)
Net fee and commission income	19	**3,636**	**3,715**
Net trading income	20	360	286
Other operating income	21	449	712
Operating income before loss on impairment and provisions		**13,543**	**13,764**
(Loss)/Gain on impairment and provisions	22	**(726)**	**637**
Personnel expenses	23	(6,333)	(6,504)
Rental expenses		(15)	(33)
Depreciation and amortisation	10	(1,640)	(1,671)
Other expenses	24	(5,036)	(5,104)
Administrative and operating expenses		**(13,024)**	**(13,312)**
(Loss)/profit before tax		**(207)**	**1,089**
Income tax benefit	25	56	64
(Loss)/profit for the year		**(151)**	**1,153**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Net loss from remeasurement of debt instruments at FVOCI		(326)	(190)
Reclassification of remeasurement of debt instruments at FVOCI disposed of in the year		-	(182)
Items that will not be reclassified to profit or loss			
Remeasurement of retirement obligations		(1)	(1)
Total other comprehensive income		**(327)**	**(373)**
Total comprehensive income for the year		**(478)**	**780**

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Financial statements on which our auditors' report was issued dated 19 May 2021

AFA OOD

ABVP - AUDIT STANDART OOD

TOKUDA BANK AD
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

(all amounts are in BGN'000)	Notes	Share capital	Reserves	Financial assets at FVOCI reserve	Accumulated loss	Total
Balance at 1 January 2019		**68,000**	**1,806**	**1,321**	**(29,190)**	**41,937**
Net profit for the year		-	-	-	1,153	1,153
Other comprehensive income for the year		-	(1)	(372)	-	(373)
Total comprehensive income for the year		-	(1)	(372)	1,153	780
Balance at 31 December 2019		**68,000**	**1,805**	**949**	**(28,037)**	**42,717**
Allocation of profit to reserves		-	1,153	-	(1,153)	-
Net loss for the year		-	-	-	(151)	(151)
Other comprehensive income for the year		-	(1)	(326)	-	(327)
Total comprehensive income for the year		-	(1)	(326)	(151)	(478)
Balance at 31 December 2020	17	**68,000**	**2,957**	**623**	**(29,341)**	**42,239**

The accompanying notes from 1 to 32 form an integral part of the annual financial statements.

The annual financial statements on pages from 1 to 64 were approved for issue by the Management Board of Tokuda Bank AD and were signed on 19 May 2021 by:

Anna Tsankova-Boneva
Member of the Management Board
Executive Director

Dimiter Voutchev
Member of the Management Board
Executive Director

Svetlin Todorov
Finance Director

Financial statements on which our auditors' report was issued dated 19 May 2021

AFA OOD

ABVP - AUDIT STANDART OOD

TOKUDA BANK AD
STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
(all amounts are in BGN'000)

	Notes	2020	2019
Cash flows from operations			
(Loss)/profit before tax		(207)	1,089
Adjustments from non-cash operations			
Depreciation and amortisation		1,640	1,671
Impairment and loss provisions		726	(637)
Net interest income		(9,098)	(9,051)
Dividend income		(13)	(2)
Loss on disposal of property and equipment and intangible assets		23	20
Other non-monetary amounts recognized in profit or loss		129	(30)
		(6,800)	*(6,940)*
Interest received		8,980	9,444
Interest paid		(2,104)	(1,627)
Dividends		13	2
Cash flows from operations before changes in operating assets and liabilities		*89*	*879*
Decrease/(increase) in financial assets at FVPL		27,905	(37,581)
(Increase)/decrease in financial assets at FVOCI		(12,185)	16,234
Increase in loans to and receivables from customers		(16,578)	(21,704)
Decrease in non-current assets held for sale		69	2,310
Increase in investment properties		(2,725)	-
Decrease/(increase) in other assets		824	(902)
Decrease in deposits from banks		(68)	(155)
Increase/(decrease) in deposits from customers		5,790	(12,992)
Decrease in other liabilities		(311)	(99)
Net cash flows from/(used in) operations		**2,721**	**(54,889)**
Cash flows from investing activities			
Acquisition of property and equipment		(112)	(175)
Proceeds from sale of property and equipment		-	10
Acquisition of intangible assets		(344)	(282)
Net cash flows used in investing activities		**(456)**	**(447)**
Cash flows from financing activities			
Lease payments		(1,059)	(1,071)
Net cash flows used in financing activities		**(1,059)**	**(1,071)**
Net increase/(decrease) in cash and cash equivalents		**1,295**	**(55,528)**
Cash and cash equivalents at the beginning of the year		79,356	134,884
Cash and cash equivalents at the end of the year	27	**80,651**	**79,356**

The accompanying notes from 1 to 32 form an integral part of the annual financial statements.

The annual financial statements on pages from 1 to 64 were approved for issue by the Management Board of Tokuda Bank AD and were signed on 19 May 2021 by:

Anna Tsankova-Boneva Member of the Management Board Executive Director	Dimiter Voutchev Member of the Management Board Executive Director	Svetlin Todorov Finance Director

Financial statements on which our auditors' report was issued dated 19 May 2021

AFA OOD

ABVP - AUDIT STANDART OOD

1. CORPORATE INFORMATION ON THE BANK

1.1. Incorporation

Tokuda Bank AD (The Bank), UIC 813155318, was incorporated on 27 December 1994 as a joint-stock company. The Bank's management address is: 21, George Washington Street, Sofia.

1.2. Ownership

As at 31 December 2020, the issued share capital of the Bank amounts to BGN 68,000,000 (sixty eight million levs), comprising 6,800,000 (six million and eight hundred thousands) registered voting shares with a nominal value of BGN 10 (ten) per share.

As at 31 December 2020, the major shareholder of the Bank is Tokushukai Incorporated, holding 99.94% of the Bank's capital.

1.3. Main activities

The Bank holds a banking license issued by the Bulgarian National Bank (BNB, Central Bank) to perform all banking activities allowed by the Bulgarian legislation.

In 2020 and 2019, the Bank's activity was mostly related to rendering banking services related to granting loans to private companies, attracting deposits from customers, servicing of client payments both locally and internationally, performing transactions with securities and other financial services in Bulgaria.

1.4. Structure and management

The Bank has a two-tier management system, consisting of Management Board and Supervisory Board.

As at 31 December 2020, the Bank's management, represented by the Management Board (MB), consists of three members, namely: Dimiter Voutchev – Member of the Management Board and Executive Director, Anna Tsankova-Boneva – Member of the Management Board and Executive Director, and Todorina Doktorova – Member of the Management Board. On 15 January 2021, Todorina Doktorova became executive director in addition to being a member of the Management Board. On the same date, Savka Yondova joined the Management Board as executive director.

As at 31 December 2020, those charged with governance of the Bank are represented by the Supervisory Board (SB): Arthur Stern – Chairperson of the SB, Thomas Michael Higgins – Member of the SB, and Chris Matlon – Member of the SB.

According to the requirements of the Credit Institutions Act, the provisions of the Statute and court registration of the Bank, it is always represented jointly by two Executive Directors.

An Audit Committee operates at the Bank, which monitors the work of its external auditors, the activities of the internal audit, risk management and accounting and financial reporting. The Audit Committee consists of the following members: Veneta Ilieva – Chairperson, Rumyana Asenova – Member, Violeta Milusheva – Member.

In 2020, the Bank operates through its Head Office and 22 offices and remote working places (2019: 24). As at 31 December 2020, 219 employees work at the Bank (2019: 223).

1.5. Legal environment

The Bank's activities are regulated by the Credit Institutions Act and the by laws related thereto, and BNB exercises supervision and controls compliance with banking legislation.

1.6. COVID-19

On 11 March 2020, the World Health Organization (WHO) declared a pandemic due to the spread of COVID-19, and on 13 March 2020, the National Assembly voted in favour of declaring a state of emergency in the Republic of

Bulgaria, as a result of which a number of restrictive measures were taken.

The State of Emergency Act was promulgated on 24 March 2020. It adopted measures in various areas – employment and social insurance, taxation and annual financial closing, non-performance and enforcement, time limits and others – for the duration of the state of emergency. Decisions and orders of the Council of Ministers and the Ministry of Health were adopted to introduce anti-epidemic measures in Bulgaria aimed at protecting and preserving people's lives and health: ban on entry into the country and measures (quarantine or provision of a negative laboratory result of a PCR test performed before entering Bulgaria) applicable to countries with an established increased incidence of COVID-19 and a significant epidemic spread; compliance with requirements for physical distance, hand hygiene, disinfection and wearing of face masks in indoor public places; suspension or restriction of the operation or mode of operation of public facilities and/or other establishments or services provided to citizens and others.

On 10 April 2020, the Bulgarian National Bank approved the "Procedure for deferral and settlement of due liabilities to banks and their subsidiary financial institutions in connection with the state of emergency imposed on 13 March 2020 by the National Assembly" ("Procedure") resulting from the COVID-19 pandemic and its aftermath. The Procedure enabled borrowers affected by the restrictive measures to defer the repayment of their liabilities to financial institutions. Initially, the Procedure allowed for deferral of liabilities for up to 6 months, which would expire no later than 31 December 2020. Subsequently, the Procedure was amended and this period was extended to 31 March 2021. A new BNB decision of 10 December 2020, pursuant to the Guidelines of the European Banking Authority (EBA) on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02 of 2 April 2020), as amended by EBA Guidelines (EBA/GL/2020/08 of 25 June 2020) amending EBA/GL/2020/02 Guidelines and by EBA Guidelines (EBA/GL/2020/15 of 2 December 2020) amending EBA/GL/2020/02 Guidelines, extended the term of the Procedure to 31 December 2021, enabling borrowers to defer repayment of their liabilities to financial institutions for up to 9 months.

As a result of the restrictions imposed in Bulgaria and most countries around the world, the normal functioning of businesses in a number of sectors of the economy was disrupted. Deliveries of raw and processed materials from suppliers, shipments to customers and labour security were difficult. Almost all companies, although to varying degrees, had to take certain actions and measures to readjust the organisation of their business, work schedule, business communication and other aspects of relationships with contractors, partners and state institutions.

In accordance with the measures taken by the Bulgarian Government and the Management Board of the Bulgarian National Bank, the Bank's management took rapid measures to respond to the crisis, aimed at preserving the health and lives of employees and customers, as well as measures to support the business positions of its clients by maintaining the quality of the loan portfolio. On 10 April 2020, Tokuda Bank AD joined the measures taken by the BNB by supporting its customers affected by the COVID-19 crisis and proposed actions and mechanisms to facilitate the servicing of their loans, following the "Procedure for deferral and settlement of due liabilities to banks and their subsidiary financial institutions in connection with the state of emergency imposed on 13 March 2020 by the National Assembly" adopted by the BNB.

The following measures have also been taken with regard to operational continuity:
- conducting numerous of information and awareness campaigns on how to prevent infection with COVID-19;
- providing personal protective equipment to both employees and customers visiting bank offices;
- making arrangements to enable employees to work according to a schedule from different locations of the Bank and from home;
- making arrangements to enable the smooth provision of basic banking services, payments, revaluations, absorption and repayment of existing loans.

The measures taken related to the Bank's business and to limit the negative consequences on its activities are:
- identification of critical processes and immediate determination of steps for their protection;
- monitoring of the loan portfolio and proactive communication with borrowers for timely indication of problems and urgent development of response and risk management measures;
- development and implementation of instructions for work in lending and exposure renegotiation;
- facilitation of the process of renegotiating customers' credit exposures;
- daily monitoring of securities markets and forecasts for them in order to take specific measures, if necessary;
- on-going monitoring of real estate markets and forecasts for them.

The Bank's management continues to monitor for the appearance of risks and, accordingly, the consequences of the pandemic on business through on-going analyses and assessments. It also develops possible scenarios and measures for response to and management of potential risks.

The effects on the Bank's financial statement items, estimates and judgments and risk management policies are disclosed in Note 29.

2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

2.1. General

These financial statements have been prepared for general purposes for the year ended 31 December 2020.

The functional and reporting presentation currency in the Bank's financial statements is the Bulgarian lev (BGN).

The financial statements are presented in thousand Bulgarian Levs (BGN'000), unless when explicitly stated otherwise.

2.2. Accounting convention

The annual financial statements of Tokuda Bank AD have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which have been effective since January 1, 2020 and have been accepted by the Commission of the European Union. IFRS, endorsed by EU, is the generally accepted name of the general purpose framework – the basis of accounting equivalent to the framework introduced with the definition in § 1, p. 8 of the Additional Provisions of the Accountancy Act under the name of "International Accounting Standards" (IASs).

For the current financial year the Bank has adopted all new and/or revised standards and interpretations, issued by the International Accounting Standards Board (IASB) and respectively, by the International Financial Reporting Interpretations Committee (IFRIC), which have been relevant to its activities.

The adoption of these standards and/or interpretations, applicable to entities in Bulgaria for annual reporting periods beginning on 1 January 2020 at the earliest, has not caused changes in Bank's accounting policies, apart from some new and expanding already existing disclosures, without resulting in other changes in the classification and measurement of individual reporting items and transactions.

New and/or amended standards and interpretations include:

- *Amendments to the Conceptual Framework for Financial Reporting (Framework) and the respective references thereto in various IFRS (in force for annual periods beginning on or after 1 January 2020, endorsed by EC).* These amendments to the Framework include revised definitions of "asset" and "liability", as well as new guidance and concepts for their measurement, derecognition, presentation, and disclosure. The amendments to the Conceptual Framework are accompanied by amendments to some references thereto in the International Financial Reporting Standards, including IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32. Some of the references state which version of the Conceptual Framework statements in the respective standards should refer to (the IASC framework adopted by IASB in 2001, the IASB framework of 2010, or the new revised framework dated 2019), while others specifically state that the standard's definitions have not been updated in accordance with the framework's latest amendments.
- *Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (in force for annual periods beginning on or after 1 January 2020 – not endorsed by EC).* These changes relate to providing a more precise definition of 'material' as stated in the two standards. According to them, the new definition of 'material' is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". There are three new aspects of the definition which should be noted: (a) "Obscuring". The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect. (b) "Could reasonably be expected to influence". The existing definition referred to 'could

influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote; and (c) Primary users (existing or potential investors, lenders and other creditors) -the existing definition referred to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose. Moreover, the amendments stress especially five ways material information can be obscured: (a) if the language regarding a material item, transaction or other event is vague or unclear; (b) if information regarding a material item, transaction or other event is scattered in different places in the financial statements; (c) if dissimilar items, transactions or other events are inappropriately aggregated; (d) if similar items, transactions or other events are inappropriately disaggregated; and (e) if material information is hidden by immaterial information to the extent that it becomes unclear what information is material. Moreover, the amendments clarify that referring to unclear information shall have the same effect as to omitted or missing information, and that materiality shall be assessed by the entity in the context of the financial statements taken as a whole.

- *Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" (in force for annual periods beginning on or after 1 January 2020 – endorsed by EC).* These amendments are related to the uncertainty ensuing from the interest rates benchmark reform undertaken by the Financial Stability Board of G20. This reform is aimed at replacing the existing interbank interest rates used as benchmarks in transactions with financial instruments (for instance: Libor, Euribor, Tibor) with alternative benchmarks based on interbank offered rates, and at developing alternative interest rates benchmark that are almost risk-free. The aims is to overcome consequences on the financial reporting resulting from the reform in interest rates benchmark in the period before the replacement of an existing interest rate benchmark with an alternative interest rate benchmark. The amendments envisage temporary and limited relief to the hedge accounting requirements in IFRS 9 and IAS 39 allowing entities to continue observing the two standards while ignoring the reform's effect.

Regarding the standard described below, the management has analysed their possible impact and has determined they would not impact the Bank's accounting policy, respectively its assets, liabilities, transactions and results, in as far as it does not possess/operate such items and/or does not perform such deals and transactions:

- *IFRS 3 (amended) – Business Combinations (effective for annual periods beginning on or after 1 January 2020, adopted by the EC).* This change concerns the definition of "business" given in the appendices to the standard and is related to the difficulties that acquiring companies face in assessing whether to acquire a business or a set of assets. The amendment aims to: (a) clarify that, in order to be defined as a business, the acquired set of activities and assets must include at least the resources invested and the main operational processes that together lead to and essentially determine product creation; b) narrow the definitions of "business" and "product" by focusing on the goods and services provided to the customer and removing the focus on the ability to reduce costs; (c) add guidance and illustrative examples to assist undertakings in assessing whether an operational process has been acquired; (d) remove the requirement to assess whether market participants are able to replace the missing resources and operational processes in the acquired undertaking in order to continue to create a product, and (e) add the option of the so-called a concentration test that allows a simplified assessment of whether or not a set of activities and assets is a business;

At the date when these financial statements have been approved for issue, there are several new standards and interpretations as well as amended standards and interpretations, issued but not yet in force for annual periods beginning on or after 1 January 2020, which have not been adopted by the Bank for early application. The management has decided that out of them the following are likely to have a potential impact in the future for changes in the accounting policies, and in the classification and value of reporting items in Bank's financial statements for subsequent periods, namely:

- *Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2023, not adopted by the EC).* These changes focus on the criteria for classifying liabilities as current and non-current. According to them, the undertaking has to classify its liabilities as current or non-current depending on the rights that exist at the end of the reporting period and is not affected by the probability whether it will exercise its right to defer settlement of liabilities. The changes specify that "settlement" of liabilities refers to the transfer to a third party of cash, equity instruments, other assets or services. The classification does not apply to convertible derivative liabilities, which are themselves equity instruments. The changes apply retrospectively;
- *Amendments to IFRS 16 Leases (effective for annual periods from 1 June 2020, adopted by the EC).* These changes introduce a practical expedient, on the basis of which each lessee can choose not to assess whether a lease concession (relief) that arose only as a direct consequence of the COVID-19 pandemic is a lease modification. This expedient may also be applied when the following conditions are met at the same time: (a) the change in lease payments changes the remuneration for the lease, with the changed remuneration not

substantially exceeding the remuneration for the lease immediately preceding the change; (b) any reduction in lease payments shall affect only payments originally due on or before 30 June 2021; and (c) the other terms of the lease do not change materially. The lessee applying the practical expedient has to account for any change in the lease payments in the same way as it would have been accounted in applying IFRS 16 if it had not constituted a lease modification. It does not apply lessors. Earlier application is allowed;

- *Amendments to IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2022, not adopted by the EC).* These changes prohibit undertakings from deducting from their costs of "testing whether the asset is functioning properly", which are part of the direct costs related to bringing the asset to the location and condition necessary for its operation as envisaged by management, the net proceeds from sales of manufactured items generated while the asset is actually being brought to such location and condition. Instead, the undertaking recognises those proceeds from sales of such items and the related costs in profit or loss for the period in accordance with the rules of other applicable standards. The changes specify that testing whether an asset functions properly is in fact an assessment of whether the technical and physical status and demonstrated performance of the asset are such that it can be used for its intended purpose in the manufacture, supply of goods or services, rentals or for administrative purposes. In addition, undertakings must disclose separately the amounts of income and expenses related to manufactured items not resulting from their ordinary activities. The changes apply retrospectively, but only to property, plant and equipment that have been brought to the location and condition necessary for their operation on or after the beginning of the earliest period presented in the financial statements when theundertaking first applies the amendment;
- *Annual improvements to IFRS 2018-2020 in IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, Illustrative Example 13 accompanying IFRS 16 Leases and IAS 41 Agriculture (effective for annual periods beginning on or after 1 January 2022, not been adopted by the EC).* These improvements make partial changes to the following standards: (a) IFRS 1 provides relief for a subsidiary that applies IFRSs for the first time at a later date than the parent. It measures in its separate financial statements the assets and liabilities at the carrying amounts that would have been included in the consolidated financial statements of the parent recognising that the parent has acquired the subsidiary. It may measure in its financial statements the cumulative foreign exchange difference for all activities abroad at the carrying amount that would be included in the consolidated financial statements of the parent, based on the date of transition to IFRSs of the parent, if no adjustments were made for the purposes of the consolidation procedures and due to the effects of the business combination. This change will also apply to associates and joint ventures that have taken advantage of the same exemption under IFRS 1. The undertaking has to apply that change for annual periods beginning on or after 1 January 2022. Earlier application is allowed; (b) IFRS 9 clarifies the fees included in the "10 per cent test" to determine whether, when a financial liability is modified, the terms of the new or modified financial liability differ materially from those initially recognised. According to the changes, in the determination of these fees, the undertaking should only include those paid or received between the borrower and the lender, including fees paid or received by the borrower and the lender on behalf of the other. The undertaking has to apply the changes to financial liabilities modified at the beginning or after the beginning of the annual reporting period in which the entity initially applies them; (c) the illustrative accounting for reimbursement costs recovered by a lessor has been removed from Illustrative Example 13 accompanying IFRS 16 to eliminate any confusion regarding the treatment of lease incentives. As the change concerns an illustrative example that accompanies the standard and is not part of it, no date of entry into force is specified; (d) IAS 41 removes the requirement for entities to exclude cash flows for tax purposes in determining the fair value of biological assets and agricultural produce;
- *Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Disclosure, IFRS 7 Financial Instruments: Disclosure, IFRS 4 Insurance Contracts and IFRS 16 Leases related to Phase 2 of the Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2021, not adopted by the EC).* The changes to the standards related to Phase 2 of the Interest Rate Benchmark Reform provide mainly two practical reliefs: a) when determining and measuring changes in agreed cash flows from financial assets and liabilities and lease liabilities, with changes in interest rate benchmarks reported by updating the effective interest rate; and (b) when reporting hedge relationships by allowing for a change (revision) in determining the hedge relationship and measuring the hedged item based on cash flows due to and as a result of the replacement of the applied interest rate benchmarks with alternatives. The changes apply retrospectively. Earlier application is allowed;
- *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets (effective for annual periods beginning on or after 1 January 2022, not adopted by the EC).* The changes specifically clarify that the costs of fulfilling the obligations under an onerous contract are the costs that are directly related to it, including: a) direct labour costs and direct material costs; and (b) additional costs that are directly attributable to the performance of the contract through allocation, such as the allocation of depreciation costs of property, plant and equipment used to perform that contract. Administrative and other general costs are not included, unless they are explicitly invoiced to the counterparty under the contract. The changes also make a minor

adjustment to the clarifications on the recognition of impairment losses on assets before creating a separate provision for an onerous contract, emphasizing that these are assets used in fulfilling the contract and not assets intended for the contract, as required until the change takes effect. The changes apply to amendments to contracts where the undertaking has not yet fulfilled all its obligations at the beginning of the annual period in which it first applies them.

The management is still in the process of survey, analysis and assessment of the impact of the changes that would affect the Bank's accounting policy and the classification of its assets and liabilities, as a result of the above standards.

Additionally, with regard to the stated below new standards, amended/revised standards and new interpretations that have been issued but not yet in force for annual periods beginning on 1 January 2020, the management has judged that they are unlikely to have a potential impact resulting in changes in the accounting policies and the financial statements of the Bank:

- *IFRS 17 "Insurance Contracts" (in force for annual periods beginning on or after 1 January 2023, not adopted by EC).* This is an entirely new accounting standard on all types of insurance contracts, including some guarantees and financial instruments, and includes rules on recognition and measurement, presentation and disclosure. The standard will supersede the effective so far standard related to insurance contracts – IFRS 4. It establishes an entirely new overall model for insurance contracts' accounting, covering all relevant accounting and reporting aspects. It is not applicable to the company's operations, which is why management has not assessed its application.
- *IFRS 10 (amended) "Consolidated Financial Statements" and IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding the sale or contribution of assets between an investor and its associates or joint ventures (postponed effective date, to be determined by the IASB).* These amendments address the accounting treatment of the sale or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the assets sold or contributed constitute in substance a business as defined in IFRS 3. If these assets as an aggregate do not meet the definition of a business, then the investor shall recognise gain or loss only to the extent of other unrelated investor's interests in the associate or joint venture. In cases of sale or contribution of assets, which as an aggregate constitute a business, the investor shall recognise the full gain or loss on the transaction. The amendments will be applied on a prospective basis. IABS postponed the initial date of application of these amendments for an indefinite period
- *Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 January 2022, not adopted by the EC).* These changes update IFRS 3, replacing a reference to an old version of the Conceptual Framework for Financial Reporting with its latest version of 2019. They also add an exception to the principle of recognising liabilities and contingent liabilities that fall within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRIC 21 Levies, explicitly stating that contingent assets are not recognised at the acquisition date. The changes apply prospectively;
- *Amendments to IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021, adopted by the EC).* The changes entitle undertakings primarily engaged in insurance business to defer the effective date of IFRS 9 Financial Instruments from 1 January 2021 to 1 January 2023 – instead, these undertakings may continue to apply IAS 39 Financial Instruments: Recognition and Measurement. The change aims to harmonise the effective date of IFRS 9 with the new IFRS 17 to overcome the temporary accounting consequences of the different effective dates of the two standards. The change also introduces a temporary exemption from the specific requirements of IAS 28 Investments in Associates and Joint Ventures with respect to applying a single policy to undertakings using the equity method under IAS 28. For annual periods beginning before 1 January 2023, such undertakings have the right, but not the obligation, to maintain the relevant accounting policies applied by the associate or the joint venture when using the equity method.

2.3. Basis of measurement

The Bank's annual financial statements have been prepared on a historical cost basis, with the exception of financial assets held for trading, financial assets measured at fair value through other comprehensive income and investment property, which have been measured at fair value.

2.4. Going concern

The Bank's financial statements have been prepared under the going concern assumption. As a result of its operations, the Bank has also accumulated losses that may raise doubt about the Bank's ability to continue as a going concern, respectively to what extent it could realise its assets at least to their carrying amount and to settle in full its liabilities at their carrying amount. Irrespective of this fact, the management, like each year, has analysed and assessed the development, respectively, the Bank's possibilities and ability to continue to function in its usual volumes and structure in the future. Therefore, it has undertaken actions to strengthen its positions through optimization of the banking products and services and their profitability, improvements of the assets structure and expenses which will create conditions for generating future income, stabilising profitability and offsetting accumulated losses. The aims on which the Bank's strategic development plans are also based are:

- improving the structure of assets and liabilities by means of:
  - sustainable annual growth of the loan portfolio;
  - decreasing the portion of non-serviced loans to levels average or lower than the average in the banking system;
  - decreasing the portion of acquired assets;
  - controlled amount of customers' deposits in order to reduce resource expenditure while retaining stable funding;
- gradual increase of the average profitability of the performing portfolio;
- limiting impairment of loans and advances to customers by improving the quality of newly granted loans;
- growth in fee and commission income;
- strict control of operating expenses;
- optimization of the branch network;
- active marketing of the Bank's products;
- improving the quality and efficiency of service through enhancing staff's qualification.

Based on the above, the management has determined and concluded that as at 31 December 2020, the Bank still has the potential and conditions to operate as a going concern. In addition, the Bank is also subject to current monitoring and regulation by BNB with respect to all of its licensed activities, financial status and stability.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

3.1. Accounting estimates

The presentation of financial statements requires management to apply certain accounting estimates and reasonable assumptions that affect the carrying amount of assets and liabilities, the amount of revenues and expenses during the period and the disclosure of contingent assets and liabilities. These estimates and assumption are based on the information available at the date of the preparation of the financial statements and the actual results may differ from these estimates.

The main assumptions, estimates and judgments applied in these financial statements are as follows:

3.1.1. *Determination of expected credit losses on financial assets with low credit risk*

Instruments with low credit risk are considered to be the instruments for which the risk of default is low, the counterpart's ability to fulfil contractual conditions is stable, and long-term adverse changes in economic conditions and unlikely to change the ability to repay debts. For short-term receivables from banks and debt instruments measured at FVOCI (these are mainly government securities), the Bank assumes that the probability of default is unlikely, and therefore determines 12-month credit losses for these instruments. If in subsequent reporting periods the criteria for low credit risk are no longer met, the Bank analyses the change in the credit risk compared to initial recognition in order to determine the need of lifetime credit losses. Designating instruments as low credit risk ones requires judgement. Upon making this judgement, the Bank uses all the reasonable, grounded and relevant information accessible without making unnecessary costs or efforts (Note 29.2)

3.1.2. *Determination of expected credit losses on loans and advances to customers*

When determining expected credit losses on loans and advances to customers, the Bank applies the general approach of IFRS 9 based on internal policies, rules, and calculation techniques. The Bank classifies its financial assets in three risk stages depending on changes in the credit risk following the initial recognition of the asset, and respectively determines 12-month credit losses if there is no change in the credit quality (Stage 1) and lifetime credit losses (Stages 2 and 3) if there is a significant increase in the credit risk. Upon determining how significantly the credit risk has increased compared to the initial recognition of the asset, the Bank uses all the reasonable and grounded information accessible without making unnecessary costs or efforts, including the moratorium conditions and measures, and the impact on affected industries and debtors of the COVID 19 pandemic in 2020.

The loss given default is an estimate of the damages the Bank would suffer upon default and is based on the difference between the contractual cash flows and the cash flows it actually expects to receive, including from collaterals and other loan facilities. Significant judgement is needed when determining the timeframe and amount of expected cash flows, including upon determining the amount of collateral – disposal period, cost of disposal and expected range of selling price. The management forms its judgements based on historical experience of losses from assets with inherent credit risk and objective evidence of impairment. This process requires assumptions related to expected future cash flows, amount of collaterals, expected period of realization of collaterals, expected change in real estate prices over the sales period, discounts depending on the type of property.

Upon determining the amount of expected credit losses, the Bank uses forecast information about expected future changes in certain macroeconomic conditions and indicators, and assumptions for correlations of how changes in these indicators would impact the probability of default. The Bank has developed internal models to determine the probability of default by loans, mostly based on historical information for periods when such information is available. The assessment of the correlation between the historical default rates and the forecast economic indicators is a significant estimate. Note 29.2 describes the process applied by the Bank to manage credit risk and determine expected credit losses on loans and advances to customers.

3.1.3. *Determination of the fair value of financial instruments*

When the fair value of financial assets and financial liabilities carried in the statement of financial positions cannot be obtained based on quoted prices on active markets, their fair value is determined by using other valuation techniques, involving the use of mathematical models. The input used in these models is obtained from observable market data, where possible and if not possible, significant judgement is applied to determine fair values (Note 29.5);

3.1.4. *Recognition of tax assets*

On recognition of deferred tax assets, the management of the Bank takes into account the probability for reversal of the separate differences and the ability of the Bank to generate sufficient taxable profit in the future against which the difference can be utilised. As a result of this analysis, the management has decided to not recognise deferred tax assets in the annual financial statements, with the exception of the tax assets described in Note 15.

3.1.5. *Classification and measurement of assets acquired from collaterals*

Acquired assets, which prior to their acquisition were held as collateral of loans granted, are classified by the Bank as non-current assets held for sale, investment property and other assets acquired from collaterals. Upon the initial acquisition of these assets, the Bank's management makes judgements regarding their classification, based on its intentions and possibilities for future use and/or disposal. The management performs an annual review, as at the date of the financial statements, of its assumptions and judgements based on the existing circumstances, and if necessary, the assets are reclassified. According to the Bank's accounting policy, assets classified as non-current assets held for sale or as other assets acquired from collaterals are subsequently measured at the lower of the their carrying amount and the fair value less costs for disposal. In order to determine the fair value of non-current assets held for sale and other assets acquired from collaterals, the Bank uses independent external valuators. Acquired assets classified as investment property are subsequently measured at fair value, whose amount is determined by independent external valuators appointed by the Bank, holding suitable professional qualification and valuation experience with respect to analogous assets. The application of the valuation approaches and techniques, and of the inputs used for each case of fair value measurement, is subject to mandatory discussion and coordination between the external expert valuators and the Bank's valuation specialists, as well as the approval of the valuation reports issued – especially with respect to significant assumptions and final conclusions (Note 29.5).

3.1.6. *Leases*

Determination whether a contract contains a lease or lease components
Upon identification and classification of a lease or a lease component of a contract, the Bank determines whether the contract contains an identifiable asset and whether it transfers the right of control over this asset for the contract term. The Bank has identified that office rental contracts contain lease components. The Bank obtains all economic benefits from the use of premises and determines the manner, time and the extent of the office usage.

Determination of the lease term of lease contracts with renewal and termination options – as lessee
The Bank determines the lease term as the non-cancellable period of the lease, together with both: a) periods covered by an option to extend the lease contract, if the Bank is reasonably certain that it will exercise that option; and b) periods covered by an option to terminate the lease contract, if the Bank is reasonably certain that it will not exercise that option.

When determining the term of leases, the Bank's management considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease, such as significant improvement to the underlying asset, significant adaptation and customisation of the underlying asset, costs related to termination of the lease and costs for the lease, relocation and identification of another asset, the importance of the underlying asset for the Bank's operations. Extension options (or periods following the termination option) are only included within the lease term when it is reasonably certain that the lease will be extended (or not terminated). The options are reassessed if a significant event or a significant change in circumstances occurs that is in the Bank's discretion and also impacts assessment.

After the commencement date, the Bank reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within its control and affects whether the Bank is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

Termination options for leases are included within the lease term when the Bank is reasonably certain that it will not exercise these options.

Determination the incremental interest rate of leases in which the Bank is a lessee
In the cases when the Bank is a lessee and cannot readily determine the interest rate to discount lease liabilities, it uses the incremental borrowing rate it would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of- use asset in a similar economic environment.

Review of indicators for impairment of right-of-use assets
As at the date of the financial statements, the Bank's management performs an impairment review of right-of-use assets. If indicators exist that the approximate recoverable amount is lower than their carrying amount, the latter is impaired to the recoverable amount of assets.

The Bank has performed a review and has determined that no indicators for impairment exist as at 31 December 2020.

3.2. Financial instruments

3.2.1. Financial assets

3.2.1.1. Recognition of financial assets

The Bank usually recognises in the statement of financial position financial assets on the "trade date", being the date on which it has committed to purchase the respective financial assets. This includes transactions performed under a regulated framework – purchases and sales of financial assets that presume a settlement and assets transfer to be performed in a generally accepted manner established by law or relevant market convention. Loans and advances to customers are recognised when the funds are transferred to the customer's account. Respectively, the Bank recognises amounts due to customers when funds are received at the Bank.

3.2.1.2. Initial measurement of financial assets

All financial assets are initially measured at their fair value plus the directly attributable transaction costs, except for the financial assets at fair value through profit or loss. Trade and other receivables are measured at invoice amount (transaction price).

When the fair value of financial assets upon initial measurement deviates from the transaction price, the Bank recognises the difference within current profit or loss under the following conditions:

- if the fair value has been determined by means of a valuation technique based on observable inputs about the market participants, the difference is recognised as early as the first date within current profit or loss; and

- if the fair value has been determined by means of a valuation technique based on unobservable inputs, the difference is not recognised within current profit or loss until the data is observable or the financial instrument is written-off.

3.2.1.3. Classification and subsequent measurement of financial assets

Depending on their subsequent measurement, the Bank classifies its financial assets in one of the following categories:
- financial assets at amortised cost;
- financial assets at fair value through profit or loss (FVPL/PL);
- financial assets at fair value through other comprehensive income (FVOCI/OCI) with or without reclassification to profit or loss.

The classification of financial assets is determined based on the following two conditions:
- the Bank's business model for management of financial assets;
- the characteristics of the financial asset's contractual cash flows (SPPI).

When managing its financial assets, the Bank applies the following business models:
- **Business model to collect contractual cash flows** – within this business model, the Bank holds the respective financial instruments to maturity in order to collect the cash flows agreed with the issuer of the financial instrument /the debtor/. The financial assets held within this business model are not subject to sale, except for individual cases with an explicit decision of the Bank's management. The business model does not change upon executing sales of financial assets or expectations for future sales;
- **Business model to collect cash flows and sell financial assets** – within this business model, the Bank holds the respective financial instruments in order to collect the contractual cash flows, but also for the purpose of sale of financial assets. As compared to the business model whose purpose is the hold financial assets to collect cash flows, in this business model there is greater frequency and value of sales. Sales of financial assets are not sporadic; rather, they constitute a major factor for achieving the purpose of the business model, but in the meantime have no frequency and value threshold.
- **Business model to sell assets** – within this business model, the Bank holds the respective financial instruments for the purpose of trading, even though for the period of holding them the Bank may receive contractual payments of various nature for the respective financial instruments, the ultimate objective is to achieve a positive financial result from differences in the prices of the financial assets.

Establishing (testing) the characteristics and conditions of contractual cash flows (SPPI) is the second factor in determining the classification of each financial instrument. This process constitutes a check of a set of selected characteristics of expected contractual cash flows from the transactions which are of key importance for the financial instrument. The aim is to identify assets for which cash flows are solely payments of principal and interest (SPPI test).

For the purpose of this test, the principal is defined as being the fair value of the financial asset at initial recognition, which may change over the instrument's life term. Moreover, the most significant element of the interest which is measured during the test is the compensation for the time value of money and credit risk. Upon assessing SPPI, the Bank makes a number of assumptions and judgements and considers a number of factors, in particular the fluctuation of cash flows and risks inherent in the respective exposure.

The process of establishing characteristics of contractual cash flows includes:
- identification and grouping the financial assets applicable to the respective business model;
- identification of sub-portfolios of instruments covered by standardised products for which the available information and/or examination of product documentations equivocally demonstrate compliance with the SPPI test;
- regarding homogeneous portfolios, the SPPI test is based on review of the applicable conditions based on internal rules, general rules and contracts and/or expert examination;
- in the remaining cases, the SPPI test is performed by means of individual examination of characteristics at the level of individual contracts.

The Bank has established the following frequency in identifying and testing the characteristics of contractual cash flows:
- upon introducing new standardised banking products at product documentation level;

- upon occurrence of a new instrument and/or product in the case of specific rules or rules that deviate from the standard ones set in internal rules, price list, general terms and conditions and contracts.

Financial assets at amortised cost
Financial assets are measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- according to the instrument's contractual conditions, on certain dates cash flows originate which are solely payment of principal and interest on the principal outstanding.

Within this category, the Bank states cash and balances with the Central Bank, loans and advances to banks and customers, and other operating receivables. Amortised cost is the instrument's initial value adjusted for principal repayments and the amortisation accumulated on the difference between the initial value and the value at maturity using the effective interest rate method and less expected credit losses allowance. Interest income is measured and recognised based on the effective interest method and is presented in the statement of comprehensive income (within profit or loss for the year) within Interest income. Upon determining expected future cash flows, the Banks takes into consideration all contractual conditions of the transaction, including premiums, fees and other consideration payable by the counterpart, which impact the transaction's profitability and constitute an integral part of the effective interest rate.

Financial assets at fair value through other comprehensive income (FVOCI/OCI)
The Bank classifies in this category debt and equity securities.

The Bank classifies and subsequently measures a debt financial asset within financial assets at fair value through other comprehensive income, when both of the following conditions have been satisfied:

- the assets are managed in a business model for the purpose of collecting contractual cash flows and sale of the financial assets;
- according to the instrument's contractual conditions, on certain dates cash flows originate which are solely payment of principal and interest on the principal outstanding.

Regarding debt securities at fair value through other comprehensive income, the interest income, foreign exchange gains, and impairment losses or their reversal are recognised in the statement of comprehensive income (within profit or loss for the year) and are calculated in the same manner as those for financial assets measured at amortised cost. Unrealised gains and losses from changes in the fair value of debt and equity securities classified within the group of financial assets at fair value through other comprehensive income are recognised directly within a separate component of equity in the statement of changes in equity (reserve for financial assets at fair value through other comprehensive income). Upon derecognition, the cumulative change in the fair value, recognised in prior period within equity, is reclassified to profit or loss for the year.

The Bank may make an irrevocable choice to classify certain equity instruments as equity instruments at fair value through other comprehensive income at initial recognition, when they are not held for trading. The classification is determined at the level of individual instruments. Gains and losses on these financial assets are never reclassified to profit or loss. Dividends are recognised as other income in the statement of comprehensive income (within profit or loss for the year) when the right on payment is established. Equity instruments at fair value through other comprehensive income are not subject to impairment tests.

The Bank has elected to classify into this category its investments in equity instruments which it intends to hold in the long term.

Financial assets at fair value through profit or loss (FVPL)
Financial assets at fair value through profit or loss include financial assets held for trading, as well as financial assets initially measured at fair value through profit or loss, or financial assets for which there is obligatory measurement at fair value. Financial assets are classified as held for trading, if they have been acquired for the purpose of short-term sale or repeated acquisition. Derivatives are also classified as held for trading, unless they have been designated as effective hedging instruments. Financial assets whose cash flows do not constitute solely payments of principal and interest are classified at measured at fair value through profit or loss, irrespective of the business model.

Irrespective of the criteria for debt instruments which should be classified at amortised cost or at fair value through other comprehensive income as described herein above, debt instruments may be measured at fair value through profit or loss upon their initial recognition, if this would eliminate or significantly decrease the accounting discrepancy. Financial assets at fair value through profit or loss are stated in the statement of financial position at fair value, and net changes in fair value are recognised in the statement of comprehensive income (within profit or loss for the year).

3.2.1.4. Impairment of financial assets

The Bank recognises an allowance for losses on impairment of financial assets by applying the so-called "expected credit losses approach" (ECL), i.e. it recognises a loss allowance irrespective of whether a specific loss event occurred. The model is applied upon the initial recognition of all debt instruments which are not measured at fair value through profit or loss, including receivables under lease agreements, loan commitments and financial guarantees.

ECL are based on the difference between the contractual cash flows due according to the contract's conditions, and all cash flows which the Bank expects to receive, discounted with the initial effective interest rate. Expected cash flows include cash flows from the sale of collaterals held or other loan facilities which constitute an integral part of the contractual conditions.

When following the asset's initial recognition no significant increase in the credit risk has occurred, the allowance for impairment is based on the expected credit loss occurring as a result of default events probable over the next 12 months (12-month expected credit loss). For exposures that have a significant increase in credit risk compared to initial recognition, the impairment provision is recognised for the credit loss expected over the remaining lifetime of the exposure, irrespective of the point of default (lifetime expected credit loss).

The change in the loss allowance is stated as result from impairment in profit or loss for the period. When in subsequent period the credit quality of the financial asset improves so that there is no longer a significant increase in credit risk compared to the asset's initial recognition, the allowance is again measured based on 12-month expected credit losses.

Additional information about the assumptions used in determining ECL is presented in Notes 29.2 and 3.1.

3.2.1.5. Reclassification of financial assets

Under certain circumstances it is possible for non-derivative financial assets at fair value to be reclassified to amortised cost and vice versa. Such reclassification is only permitted upon change in the business model within which the respective assets are managed. The change in the business model is determined by the Bank's management as a result of external or internal changes of material nature to the Bank's operations. A change may also occur upon reorganization of operations resulting from change in the business model's objectives. Changes to the initial classification of financial assets are expected to occur in relatively rare and limited cases.

The new treatment is applied for future periods, following the date of reclassification when the business model was changed, without restatement of prior periods. The date of reclassification is taken to be the first day of the first reporting period following the change in business model, as a result of which the reclassification occurred.

3.2.1.6. Derecognition of financial assets

Financial assets are derecognised from the Bank's statement of financial position when: a) the rights to cash flows from the asset have expired, or b) the contractual rights have been transferred by the Bank or it holds them, but has undertaken an obligation to transfer the cash flows received thereby to a third party without undue delay (so-called pass-through agreement). A transfer leads to derecognition when: a) the Bank has transferred substantially all risks and rewards from ownership of the asset; or b) the Bank has neither transferred nor retained substantially all risks and rewards from ownership of the asset, but has transferred control thereon. It is assumed that the Bank has transferred control only when the recipient has the practical possibility to freely and unrestrictedly dispose of or sell the assets to third unrelated parties.

If the Bank continues to hold substantially all risks and rewards from ownership of a transferred financial asset, or has retained control thereon, it continues to recognise the asset transferred to the extent of its continuing interest therein, but also recognises the associated liability for the consideration received. Both the asset and liability are measured so as to most adequately assess the continuing rights and obligations of the Bank. If the continuing involvement is in the form of a guarantee on the transferred asset, it is measured according to the policy on financial guarantees, and if it is in the form of put or call options – at the fair value.

3.2.1.7. Modification due to material change in terms and conditions

The Bank modifies the financial asset when the terms and conditions are renegotiated to a degree that may be considered to constitute a new asset, and the difference is recognised as gain or loss on derecognition, in as far as the impairment loss has not yet been recognised. The newly created assets are classified in Stage 1 for the purpose of calculation of expected credit losses (ECL). When the modification of a financial asset results in derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered to be a new one.

Upon assessment whether an asset should be derecognised, the Bank also considers the following additional factors: change in the loan's currency, change in counterpart, whether the change results in the instrument no longer meeting the SPPI test criteria (solely payment of principal and interest).

3.2.2. Financial liabilities and equity instruments

The Bank's financial liabilities include: payables to banks and customers under attracted deposits, and other current liabilities.

The Bank classifies its liabilities, debt and equity instruments as either financial liabilities or as equity in accordance with the substance of the contractual arrangements with the respective counterparty regarding these instruments. The Bank determines the classification of its financial liabilities at the time of their origination. All financial liabilities held by the Bank are classified as financial liabilities and are subsequently measured at amortised cost.

The differences resulting from changes in own credit risk for financial instruments measured at fair value through profit or loss are carried to a reserve for financial assets at fair value through other comprehensive income, without subsequent reclassification in the statement of profit and loss and other comprehensive income.

Financial liabilities are initially recognised in the statement of financial position at fair value, net of the directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Interest costs are carried currently to the statement of profit or loss and other comprehensive income (within profit or loss for the year) systematically over the life of the instrument.

Financial liabilities are derecognised when the obligation thereunder is discharged, or cancelled, or the counterparty loses its entitlement.

3.2.3. Netting of financial assets and financial liabilities

Financial assets and financial liabilities are netted, and the net amount is carried to the Bank's statement of financial position only if a legally enforceable right exists to offset the recognised amounts and if there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.2.4. Financial guarantees and undrawn commitments

Contingencies are liabilities arising as a result of past events whose existence can only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which cannot be fully controlled by the Bank or it is not probable that a resource outflow would arise to repay the liability. In its usual course of business, the Bank grants bank guarantees having the nature of loan substitutes, good performance guarantees, tender guarantees, customs guarantees and letters of credit to its clients. It treats these as conditional commitments until an event resulting in the occurrence of an actual obligation for it to make a payment to a client's counterpart in whose favour the respective guarantee has been issued. Such an event is a claim to the Bank for payment of the respective commitment undertaken.

Financial guarantees are initially recognised at fair value, which is the amount of the fee (premium) received. The Bank's liability under each financial guarantee is subsequently measured at the higher of the following: a) the amount initially recognised less the amortised portion thereof recognised in profit or loss, and b) the impairment of expected credit losses.

The net effect of the change in the estimate of expected credit losses from financial guarantees granted, letters of credit and undrawn commitments is presented in the statement of profit and loss and other comprehensive income (within profit or loss for the year). The fee collected for bank guarantees issued is amortised on a straight-line basis over the period of the guarantees and is presented in the statement of profit or loss and other comprehensive income within revenue from fees and commissions.

The undrawn loan facilities and letters of credit are commitments for which over a certain time period the Bank commits to grant to its client a loan under conditions agreed in advance. Like for financial guarantees, provisioning is done when there is an irrevocable loan agreement at the amount of the impairment of expected credit losses.

The nominal amount of financial guarantees, undrawn loan facilities (where the loan is agreed at market conditions) and letters of credit is not recognised and carried to the statement of financial position. This amount, together with the recognised losses, is disclosed in the notes to the financial statements (Note 29.2).

3.2.5. Receivables and payables under repurchase agreements (repo deals)

The Bank enters into agreements for temporary sale of securities with repurchase clause on a future date at a fixed price.

Receivables and liabilities under repurchase agreements are recognized at cost, which represents the funds placed/obtained by the Bank, secured by the value of the securities, together with the accrued to the moment interest receivable/payable.

Securities sold with repurchase clause are not derecognized from the statement of financial position of the Bank. The difference between the sale price and repurchase price is considered as interest and is accrued proportionally for the term of the agreement.

3.3. Investment property

The Bank states as investment property real estate owned thereby from which it intends to realise rental income or capital gains from increases in their value or both.

Investment property is recognised as an asset only when it is probable that the Bank will obtain the future economic benefits related to the property, and when the acquisition price can be reliably measured. Recognition is usually performed when all risks and rewards related to the asset are transferred to the Bank.

Investment property is initially measured at acquisition cost, including transaction costs. Current costs related to servicing the asset are not included in the carrying amount, but are stated as expense for the period. Enhancements made after the date of initial recognition are included in the value of the investment property, in as far as they meet the criteria for asset recognition.

The Bank uses the fair value model for presentation of investment property.

Gains or losses on changes in the fair value of investment property are carried to the statement of comprehensive income (within profit or loss for the year).

Investment property is derecognised from the statement of financial position when it is permanently decommissioned and no future economic rewards are expected therefrom or upon sale. Gains and losses on sale of individual assets from the "investment property" group are determined by comparing the consideration the Bank expects to be entitled to (the sales revenue) and the carrying amount of the asset at the date on which the recipient obtains control thereon.

3.4. Leases

At the lease inception, which is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease, the Bank performs analysis and assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank as lessee
Transfer of control over the use of an asset exists when the Bank in its capacity as customer receives simultaneously:

- the right to dispose of an asset – to determine how and for what purpose it will use the asset over its term of use;
- the right to obtain essentially directly or indirectly all economic benefits from the asset's use over its term of use – through use, holding, or sub-leasing the underlying lease asset.

At the lease inception, the Bank recognizes a right-of-use asset and lease liability. The right-of-use asset is initially measured at acquisition cost. The acquisition cost includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- costs for dismantling and removing the underlying asset, restoring the site.

Following the lease inception, the Bank applies remeasurement by applying the acquisition cost model, measuring the right-of-use asset at acquisition cost less all depreciation and impairment losses accumulated and adjusted in accordance with each remeasurement of the lease liability as a result of subsequent modifications.

The Bank depreciates the right-of-use asset to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If ownership of the asset is transferred under the lease by the end of the lease term, the Bank shall depreciate it to the end of the useful life.

Right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*, by applying an impairment determination and reporting policy analogous to the one for property and equipment. The recoverable amount of right-of-use assets is the higher of the fair value less disposal costs, or value in use. To determine assets' value in use, future cash flows are discounted to their present amount, by applying a pre-tax discount rate reflecting the market conditions and time value of money and the risks inherent to the respective asset. Impairment losses are determined as the difference between the recoverable and carrying amount (when the recoverable account is lower than the carrying amount).

Right-of-use assets are presented within property and equipment and right-of-use assets in the statement of financial position, and the depreciation and impairment losses thereof – in the statement of comprehensive income (within profit or loss for the year) as depreciation and amortization expense.

The Bank recognises lease liabilities at the commencement date, measured at the present value of the lease payments that are not paid at this date. Lease payments are discounted using the interest rate implicit in the lease. If this percentage could not be reliably determined, the Bank uses the incremental borrowing rate. As incremental borrowing rate, the Bank uses the effective interest rate on interest-bearing attracted funds. For 2020, the incremental interest rate is 0.37%. Lease liabilities are subsequently measured using the effective interest method, the carrying amount of the liability is remeasured so as to reflect any change in the lease or fixed payments.

The Bank determines the lease term as the non-cancellable period of the lease, together with both: periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The basis for determining the lease term is the term stipulated in the agreement and the strategies, plans and intentions adopted with respect to each particular asset. The Bank adjusts a lease term (irrespective of whether it contains a renewal option) if there are sufficiently certain circumstances and expectations justifying a change in the term envisaged in the lease. The Bank analyses all factors that confirm the possibility to renew or terminate the lease. The lease term is reviewed at the end of each calendar year for all leases or upon change in the non-cancellable period of the lease.

The Bank has elected to apply the exemption allowing it to not recognize right-of-use assets and lease liabilities for leases whose underlying asset amounts to less than USD 5,000. The Bank recognizes the lease payments related thereto as an expense on a straight-line basis for the lease term or on another systematic basis. Assets for which the above exemption has been applied, whose term is up to 12 months and/or amounting to less that USD 5,000 comprise office equipment, rental of parking places, rental of ATM locations, etc.

The Bank as lessor
The Bank as lessor classifies its leases as operating or finance leases.

All amounts are in BGN ‘000, unless explicitly stated otherwise

Operating lease
A lease in which the lessor continues to hold a significant portion of all risks and economic benefits from ownership over the asset is classifies as an operating lease. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The underlying asset which is subject to the lease shall remain and be stated within the Bank’s statement of financial position.

Finance lease
Upon leasing assets under finance leases, the Bank recognises and presents the assets held under finance leases in its statement of financial position as lease receivables whose amount is equal to present value of minimum lease payments. The Bank recognises finance income, using the net investments method (before taxes), with reflects a constant periodic rate of return on investment. Receivables under funding agreements in finance leases are stated within “Loans and advances to customers” in the statement of financial position.

3.5. Property and equipment and right-of-use assets and intangible assets

Property (land and buildings) is carried to the statement of financial position at acquisition cost less accumulated depreciation and impairment loss, if any.

The acquisition cost includes the purchase price and all direct costs for acquisition.

Intangible assets are carried at acquisition cost less accumulated amortization and impairment loss, if any.

The Bank has set a value threshold of BGN 300, below which the acquired assets, regardless of having the features of fixed assets, are treated as current expense at the time of their acquisition.

Depreciation of property and equipment is accrued according to the straight-line method and over the expected useful life of the respective assets at the following annual rates:

Buildings	2%
Machinery and equipment	20%
Computers	20%
Vehicles – automobiles	15%
Fixtures and fittings	15%
Software	15%
Leasehold enhancements	According to the term of the agreement but not higher than 33.3%

The useful life set is reviewed at the end of each year and in case of any material deviation from the future expectations on the period of assets’ use, the latter is adjusted prospectively.

Property, equipment and intangible assets are subject to periodic review for impairment upon existence of impairment indicators. In the cases when the asset’s carrying amount is higher than its expected recoverable amount, the asset is impaired and the Bank states impairment loss.

Property, equipment and intangible assets are derecognised from the statement of financial position when they are permanently withdrawn from use and no future economic benefits are expected therefrom or on disposal, upon transfer of control to the asset’s recipient.

Gains and losses arising from the disposal of assets are determined as the difference between the disposal proceeds determined pursuant to IFRS 15, and the carrying amount of the asset in the statement of financial position at the disposal date. Gains and losses on disposal are recognised in the statement of profit or loss and other comprehensive income (within profit or loss for the year).

Right-of-use assets are stated within property and equipment in the statement of comprehensive income, and the policy applies is disclosed in Note 3.4.

The Bank depreciates right-of-use assets on a straight-line basis over the lease term. The depreciation rate applied is depends on the contract’s term.

All amounts are in BGN '000, unless explicitly stated otherwise

3.6. Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income (within profit or loss for the year) on accrual basis for all interest-bearing financial instruments.

Interest income comprises: interest income from debt securities measured at fair value through other comprehensive income, interest income from deposits with other banks, interest income from financial assets held for trading, interest on loans and advances to customers, including fees and charges on loans and advances to customers (including paid to intermediaries in relation to the loan disbursement), which are integral part of the effective income of the financial instrument.

Interest costs comprise: interest on deposits from customers, as well as interest on financial assets (current accounts at other banks) with negative profitability.

Pursuant to IFRS 9, upon recognition of interest income and costs, the effective interest method is applied for all financial instruments at amortised cost and at fair value.

The effective interest method is a method to determine the amortised cost of a financial instrument and to allocate the income/cost therefrom/therefor over a period of time. The effective interest rate is the interest rate that discounts the future inflows and outflows (including all fees and other add-ons or discounts) that are expected to be generated during the life of a financial instrument or a shorter period of time, as appropriate, to its carrying amount.

The interest income from financial assets at amortised cost is calculated by applying the effective interest rate on the gross amount of the financial assets, with the exception of assets classified in Stage 3, for which the effective interest rate is applied on the amortised cost (net carrying amount) of the financial asset.

3.7. Fee and commission

Fee and commission income on bank and non-bank services (mostly under current transactions in BGN or foreign currencies and for opening letters of credit or issuing bank guarantees) is recognised over time or upon performance as per the conditions for transfer of control over the service.

Fees and commissions on bank guarantees are recognised on a systematic basis over the period of the exposure so as to match the cost of providing the service.

Fee and commission expenses related to the servicing of nostro accounts and other bank accounts are usually recognised at the time of performing/consuming the service they refer to, unless they are consumed over a period of time – in this case, they are recognised on a systematic basis over the period.

3.8. Foreign currency transactions

Transactions denominated in foreign currencies are translated into BGN at the rates of BNB at the date of transaction. Receivables and payables in foreign currencies are revaluated on a daily basis. At the end of the year, they are revalued into the BGN equivalent at closing exchange rates of BNB, which for the more important currencies as at the dates of the statement of financial position are as follows:

Currency	**31.12.2020**	**31.12.2019**
USD	1.59386	1.74099
EUR	1.95583	1.95583

Effective from 1999, the exchange rate of the Bulgarian Lev is fixed to the Euro, official currency of the European Union, at a rate of EUR 1 = BGN 1.95583.

Net foreign exchange gains and losses arising from revaluation of cash and cash equivalents, loans and receivables, investments in securities, payables under deposits and other liabilities and from foreign currency transactions are recognized in the statement of comprehensive income (within profit or loss for the year) when occurred.

3.9. Employee benefits

Employee benefits are all forms of consideration given by the Bank in exchange for service rendered by the employees.

Short-term employee benefits include:
- basic remuneration for service;
- remuneration above the basic one according to the applied plans for service payment;
- additional remuneration for prolonged service, overtime and internal replacement;
- other specific additional remuneration according to individual labour contract;
- social security contributions and other benefits, including for paid sick leave, maternity leave and others;
- annual paid leave and other compensated leaves.

At the date of each financial statements, the Bank measures the expected expense on accumulated unused paid leaves which is expected to be paid as a result of the unused entitlement to paid leave. The measurement includes the estimate of remuneration and social security and health insurance contributions due by the employer thereon.

According to the requirements of the Labour Code upon termination of labour contract entities in the country are obliged to pay compensation at the amount of 2 to 6 salaries depending on the employee's length of service at the Bank.

In accordance with IAS 19 Employee Benefits the Bank recognizes liabilities for retirement benefits, which are calculated by a licensed actuary using the projected unit credit method (Note 16). The amount reported in the statement of financial position represents the present value of the long-term liabilities of the Bank for retirement benefits.

3.10. Income taxes

The current income taxes of the Bank are determined in accordance with the requirements of the Bulgarian tax legislation. Income tax is calculated based on the taxable profit for the period, determined in accordance with the provisions of the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for 2020 is 10% (2019: 10%).

Deferred income taxes are determined using the balance sheet method for calculating the liability for all temporary differences of the Bank as at the date of the financial statements between the carrying amounts of the assets and liabilities and their tax bases.

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of those originating from recognition of an asset or liability, which has not affected the accounting and the taxable profit/(loss) at the transaction date.

Deferred tax assets are recognised for all deductible temporary differences to the extent sufficient taxable profit is available from which the deferred tax asset could be set off. This does not apply to differences arising from the recognition of an asset or liability, which has affected neither the accounting nor taxable profit/(loss) at the transaction date.

The carrying amount of all deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that they reverse and sufficient taxable profit be available or taxable temporary differences occur in the same period, to allow the deferred tax asset to be deducted or offset.

Deferred taxes are recognised as savings or expenses and are included in the statement of comprehensive income (within profit or loss for the year), expect for the cases when these taxes originate from a transaction or event stated in the same or other period directly within equity. Deferred taxes are directly accrued or deducted within equity when they refer to items accrued or deducted in the same or other period within equity.

Deferred tax assets and liabilities are measured at the tax rates and on the bases that are expected to apply to the period and type of operations when the asset is realised or the liability – settled (repaid) on the basis of the tax laws that have been enacted or substantively enacted, and at tax rates of the country (Bulgaria) under the jurisdiction of which the respective deferred asset or liability is expected to be recovered or settled.

As at 31 December 2020 the deferred income taxes of the Bank are computed at a tax rate of 10%, which is also valid for 2020 (31 December 2019: 10%).

3.11. Fair value of financial assets and liabilities

Some of the Bank's assets and liabilities are measured and presented at fair value on recurring basis and/or fair values are only disclosed for financial reporting purposes. These include:

- for the purpose of measurement and presentation at fair value in the financial statements: financial assets – securities at fair value through other comprehensive income, financial assets at fair value through profit or loss, non-financial assets – investment property;
- for the purpose of fair value disclosures in the financial statements: financial assets and liabilities – measured at amortised cost: loans and advances to banks, loans and advances to customers, deposits from to banks, deposits from customers; non-financial assets – assets held for sale.

The Bank also determines the fair value of the collaterals obtained thereby.

Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction at a major (or most favourable) market at currently applicable market conditions. Fair value according to IFRS 13 is an exit price, irrespective of whether it is immediately available or estimated by means of another measurement technique.

Fair value is measured from the perspective of using the assumptions and judgments that potential market participants would use when pricing the respective asset or liability assuming that market participants act in their economic best interest. In measuring the fair value of non-financial assets the starting point is always the assumption what would be the highest and best use of the particular asset for the market participants.

The Bank has developed internal rules and procedures for measuring the fair value of various types of assets and liabilities.

The Bank applies various valuation techniques that would be relevant to the specific features of the respective conditions and for which it has sufficient available inputs while trying to use at a maximum the publicly observable information, and respectively, to minimize the use of unobservable information. It uses all three acceptable approaches – *the market approach, the income approach and the cost approach* – whereas the most frequently applied valuation techniques include direct and/or adjusted quoted market prices, market comparables (analogues) and discounted cash flows.

If an active market exists, the Bank uses direct quoted (unadjusted) prices to determine the fair value of the respective financial instrument.

If the market for the respective financial instrument is not active, the Bank establishes its fair value using a particular valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flows analyses and option pricing models. The valuation technique chosen makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with the accepted economic methodologies for pricing of financial instruments. Inputs to the valuation techniques reasonably represent market expectations and measures for risk-return factors inherent in the financial instrument. The Bank calibrates the valuation techniques and tests their validity using prices from observable current market transactions in the same instrument or based on other available observable market data. Fair values reflect the credit risk of the instrument and include adjustments to account for the credit risk of the Bank and the counterparty, where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The determination of the fair value of non-financial assets is carried out periodically (annually). The Bank uses the expertise of external independent licensed valuators in determining the fair value of its investment properties for the purpose of disclosures in the financial statements. The selection of valuators is made on the basis of the following criteria: applied professional standards, professional experience and knowledge, reputation and market status. The need for rotation of the external valuators is assessed periodically. The application of the valuation approaches and techniques as well as the inputs used in all cases of fair value measurements are subject to mandatory discussion and agreement between the external expert valuators and the respective officers in charge within the Bank. The final fair value measurements are subject to approval by the Bank's management.

The Bank uses the following hierarchy to measure and disclose the fair value of financial instruments through valuation technique:

- Level 1: quoted (unadjusted) prices of active markets for identical assets or liabilities;
- Level 2: other techniques based on inputs, which has significant effect on the reported fair value and are observable either directly or indirectly;
- Level 3: techniques which have significant effect on the reported fair value and use inputs that are not based on observable market data.

The fair value hierarchy does not grant priority to the valuation techniques used, but is based on the nature of the input used in applying these techniques. The selection of a valuation technique to be applied takes into consideration the selling prices on the market (i.e. the major (or most favourable) market) for the asset or liability and the valuation inputs corresponding to the nature of the valued item.

Note 29.5 and Note 11 provide information on the fair values of financial assets and liabilities, investment property, and assets held for sale.

3.12. Provisions and contingent liabilities

Provisions are recognised when the Bank has a present obligation, constructive or legal, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. The measurement of provisions is based on the best estimate made by the management at the date of preparation of the statement of financial position concerning the expenses required for the settlement of the particular obligation. The estimate is discounted if the obligation is long-term.

3.13. Assets acquired from collaterals

Assets acquired from collaterals which the Bank does not intend to use in the course of its business, and which are not investment properties are presented as "Other assets". These assets are collaterals which the Bank has acquired from borrowers who became insolvent. The Bank's policy is to sell the acquired collaterals when the Bank finds a profitable enough market for them.

Assets acquired from collaterals are initially measured at acquisition cost, including transaction costs. They are subsequently measured at the higher of their carrying amount and their net selling price.

Assets acquired from collaterals that meet the conditions of IFRS 5 and IAS 40 are presented as non-current assets held for sale (Note 3.14) and investment property (Note 3.3), respectively.

3.14. Non-current assets held for sale

Non-current assets held for sale are real estate property and other non-current assets which the Bank intends to realize through a sale transaction, rather than through continuing use. Assets are classified in this category if they meet the following criteria:

- The asset is available for immediate sale
- The sale is highly probable, including:
    - Management is committed to a plan to sell the asset;
    - Active action has been undertaken to identify a buyer and carry out the sales plan;
    - The asset is actively marketed for sale at a price close to its current market value;
    - The sale is expected to take place within one year after the asset's classification as held for sale.

Certain circumstances may extend the period to complete the sale beyond one year, if the delay is caused by events and circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset and undertakes actions to respond to the circumstances which caused the delay.

The Bank classifies as non-current assets held for sale assets acquired as collateral under non-performing loans. Initially, the assets are recognized at acquisition cost, which is usually the public sale price, including direct transaction costs. After their initial recognition assets are recognized at the lower of their carrying amount or fair value, less costs to sell. These assets are not depreciated.

All amounts are in BGN '000, unless explicitly stated otherwise

3.15. Share capital and reserves

The Bank is a joint-stock company and it is obliged to register in the Commercial Register a certain amount of share capital, which should serve as a security for the receivables of the Bank's creditors. Shareholders are liable for the obligations of the Bank up to the amount of the capital share held by each of them and may claim refunding of this interest only in liquidation or bankruptcy proceedings.

The share capital represents the non-distributable capital of the Bank and is presented at the nominal value of the issued shares.

The Bank is obliged to set aside a Reserve Fund (statutory reserve) in accordance with the requirements of the Commercial Act on distribution of the profit (Note 17.2).

The financial assets at FVOCI reserve is being set aside from the difference between the carrying amount of financial assets at fair value through other comprehensive income and their fair values at the revaluation date.

The financial assets at FVOCI reserve is transferred to the current profit and loss in the statement of profit or loss and other comprehensive income, when the financial assets are sold or in case of lasting and prolonged impairment. The revaluation reserve of equity instruments upon their derecognition is not reclassified to current profit in the statement of comprehensive income.

3.16. Cash and cash equivalents

Cash and cash equivalents for the purpose of the statement of cash flows comprise cash in hand, cash in current accounts with other banks, deposits placed with other banks – payable upon demand and/or with original maturity of up to 3 months, as well as balances with the Central Banks, free of restrictions.

3.17. Comparative information

In these financial statements, the Bank provides comparative information for one prior year. Where necessary, comparative data is reclassified (and restated) in order to achieve comparability in view of the current year presentation changes.

4. CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2020	**31.12.2019**
Cash in hand	10,328	9,570
Cash with the Central Bank	39,135	43,632
	49,463	53,202
Allowance for credit losses	(2)	(9)
Total	**49,461**	**53,193**

As at 31 December 2020 and 2019 cash with the Central Bank includes mandatory minimum reserves at the amount of BGN 27,602 thousand and BGN 27,428 thousand respectively, reserve guarantee fund for securing the payments through the system for gross settlement in real time – RINGS in accordance with the requirements of the Central Bank amounting to BGN 146 thousand and BGN 267 thousand, respectively. There are no limitations imposed by the Central Bank for using the minimum reserves. The amount of the reserves depends on the amount of deposits attracted by the Bank.

All amounts are in BGN '000, unless explicitly stated otherwise

The movement in the allowance for credit losses of balances with the Central Bank is as follows:

	2020	2019
Balance on 1 January	**9**	**20**
Increase in the impairment for expected credit losses	-	-
Decrease (reversal) of the impairment for expected credit losses	(7)	(11)
Balance on 31 December	**2**	**9**

5. LOANS AND ADVANCES TO BANKS

Loans and advances to banks are as follows:

	31.12.2020	31.12.2019
Current accounts at local banks	480	1,292
Current accounts at foreign banks	5,562	4,791
Deposits at local banks	10,802	20,083
Deposits at foreign banks	14,349	-
	31,193	26,166
Allowance for credit losses	(3)	(3)
Total	**31,190**	**26,163**

Deposits placed with banks as at 31 December 2020 and 2019 have maturity of up to three months.

As at 31 December 2020 and 2019, loans and advances to banks are classified in Stage 1. Expected credit losses are calculated on an individual basis.

The movement in the allowance for expected credit losses on loans and advances to banks is as follows:

	2020	2019
Balance on 1 January	**3**	**7**
Increase in the impairment for expected credit losses	-	-
Reversal of the impairment for expected credit losses	-	(4)
Balance on 31 December	**3**	**3**

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31.12.2020	31.12.2019
Debt instruments at FVPL		
Bulgarian government securities	2,996	-
Foreign government securities	6,375	37,273
	9,371	**37,273**
Equity instruments at FVLP		
Stocks and shares in local entities	158	161
	158	**161**
Total	**9,529**	**37,434**

Financial assets at FVPL are portfolios of securities held for trading.

All amounts are in BGN '000, unless explicitly stated otherwise

7. DEBT AND EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31.12.2020	31.12.2019
Debt instruments at fair value through other comprehensive income		
Bulgarian government securities	19,238	25,026
Foreign government securities	17,563	-
Corporate bonds of foreign issuers	1,952	1,915
	38,753	26,941
Equity instruments at fair value through other comprehensive income		
Shares and interest in local entities	293	293
	293	**293**
Total	**39,046**	**27,234**

The movement in the fair value of securities at fair value through other comprehensive income is as follows:

	2020	2019
Balance at 1 January	**27,234**	**44,354**
Increase (purchases)	33,275	-
Decrease (sales and/or maturity)	(20,112)	(17,663)
Net effect of restatement to fair value	(327)	(189)
Change in accrued interest	(1,024)	732
Balance at 31 December	**39,046**	**27,234**

As at 31 December 2020 and 2019 debt securities at fair value through other comprehensive income are classified in Stage 1. Expected credit losses are determined on an individual basis (Note 29.2).

The movement in the impairment on debt securities at fair value through other comprehensive income is as follows:

	2020	2019
Balance on 1 January	**37**	**146**
Increase in the impairment credit losses on debt securities recognised in other comprehensive income	-	-
Decrease (reversal) in the impairment credit losses on debt securities recognised in other comprehensive income	(22)	(109)
Balance on 31 December	**15**	**37**

As at 31 December 2020, government securities with carrying amount of BGN 6,622 thousand are pledged as collateral with BNB to secure attracted funds from the State Budget (31 December 2019: BGN 10,181 thousand).

All amounts are in BGN '000, unless explicitly stated otherwise

8. LOANS AND ADVANCES TO CUSTOMERS

8.1. Analysis by type of customers

	31.12.2020	**31.12.2019**
Private entities	174,991	159,080
Households and individuals	49,663	48,869
State budget	1,501	1,501
Financial entities	2,612	2,603
Finance lease corporate clients	5,693	6,351
	234,460	218,404
Allowance for credit losses	(9,263)	(10,375)
Total	**225,197**	**208,029**

8.2. Analysis by sectors

Information for allocation of loans and advances to customers in accordance with the internal classification of the Bank is, as follows:

	31.12.2020	**31.12.2019**
Industry	36,337	39,104
Trade	31,032	26,208
Consumer loans	18,799	21,123
Construction	35,064	28,480
Tourist services	21,451	15,107
Agriculture	14,042	13,569
Health care	6,043	6,071
Information and communication services	5,559	5,926
Real estate transactions	4,320	4,756
Transport	1,833	1,910
Finance	2,612	2,602
State budget	1,501	1,501
Other sectors	55,867	52,047
	234,460	218,404
Allowance for credit losses	(9,263)	(10,375)
Total	**225,197**	**208,029**

8.3. Movement of the allowance for credit losses and allocation by portfolios and stages

	2020	**2019**
	Loans and receivables	**Loans and receivables**
Balance at 1 January	**10,375**	**12,368**
Accrued impairment	1,538	1,589
Increase in the allowance for impairment of unrecognized interest on loans in Stage 3	44	109
Reversed impairment	(1,019)	(2,204)
Impairment written of	(1,675)	(1,487)
Balance at 31 December	**9,263**	**10,375**

All amounts are in BGN '000, unless explicitly stated otherwise

The allocation of loans and advances to customers based on type and stage of impairment is as follows:

	31.12.2020	**31.12.2019**
Individually impaired		
Gross amount	384	-
Allowance for credit losses	(216)	-
Stage 2	168	-
Gross amount	23,535	22,976
Allowance for credit losses	(6,183)	(6,698)
Stage 3	17,352	16,278
Individually impaired	**17,520**	**16,278**
Collectively impaired		
Gross amount	166,074	161,377
Allowance for credit losses	(73)	(44)
Stage 1	166,001	161,333
Gross amount	37,368	25,576
Allowance for credit losses	(209)	(80)
Stage 2	37,159	25,496
Gross amount	7,099	8,475
Allowance for credit losses	(2,582)	(3,553)
Stage 3	4,517	4,922
Collectively impaired	**207,677**	**191,751**
Total	**225,197**	**208,029**

8.4. Analysis of finance lease receivables from corporate clients

Finance lease receivables are as follows:

	31.12.2020	**31.12.2019**
Up to 1 year	377	504
1 to 5 years	2,524	2,817
Over 5 years	4,888	5,623
Gross investments in finance leases, receivables	7,789	8,944
Less: unearned finance income	(2,096)	(2,593)
Net investments in finance leases	**5,693**	**6,351**

The net investments in finance leases are as follows:

	31.12.2020	**31.12.2019**
Up to 1 year	135	215
1 to 5 years	1,498	1,584
Over 5 years	4,060	4,552
	5,693	**6,351**
Allowance for credit losses	-	-

All amounts are in BGN '000, unless explicitly stated otherwise

9. NON-CURRENT ASSETS HELD FOR SALE

	2020	**2019**
Balance at the beginning of the year	2,674	4,984
Additions during the year	-	48
Disposals during the year	(69)	(162)
Transferred to assets acquired from non-performing loans	-	(2,196)
Balance at 31 December	**2,605**	**2,674**

The fair values of non-current assets held for sale are categorized as Level 3 fair values based on the inputs used in the valuation approach. The valuations have been done in compliance with the methods set in IFRS 13 and the International Valuation Standards and the reference for market evidence based on transactions or bids for similar properties. Additional information about the inputs used in determining their fair value and the types of non-current assets held for sale is provided in Note 29.5.

All amounts are in BGN '000, unless explicitly stated otherwise

10. PROPERTY, EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

Property, equipment and right-of-use assets

	Land and buildings	Right-of-use assets (buildings)	Office equipment	Motor vehicles	Furniture and fixtures	Other assets	Total property, equipment and right-of-use assets
Book value							
1 January 2019	1,017	-	2,642	778	584	630	5,651
Impact of the adoption of IFRS 16	-	3,695	-	-	-	-	3,695
Additions	-	522	159	-	16	-	697
Disposals	(266)	(119)	(98)	-	(22)	(73)	(578)
Sold	-	-	(11)	(45)	(7)	-	(63)
31 December 2019	751	4,098	2,692	733	571	557	9,402
Additions	-	904	111	-	1	-	1,016
Disposals		(257)	(58)	-	(4)	(74)	(393)
Sold	-	-	-	-	-	-	-
31 December 2020	751	4,745	2,745	733	568	483	10,025
Accumulated depreciation							
1 January 2019	(315)	-	(1,948)	(772)	(412)	(409)	(3,856)
Depreciation charge for the year	(18)	(1,078)	(289)	(6)	(38)	(75)	(1,504)
Depreciation written off	105	-	107	45	27	54	338
31 December 2019	(228)	(1,078)	(2,130)	(733)	(423)	(430)	(5,022)
Depreciation charge for the year	(15)	(1,044)	(279)	-	(38)	(61)	(1,437)
Depreciation written off		217	57	-	4	64	342
31 December 2020	(243)	(1,905)	(2,352)	(733)	(457)	(427)	(6,117)
Net carrying amount							
31 December 2019	523	3,020	562	-	148	127	4,380
31 December 2020	508	2,840	393	-	111	56	3,908

As at 31 December 2020, tangible fixed assets include assets with a book value of BGN 2,950 thousand (31 December 2019: BGN 2,545 thousand), which have been fully depreciated, but continue to be used in the Bank's operations.

All amounts are in BGN '000, unless explicitly stated otherwise

As at 31 December 2020, right-of-use assets are related to leases of office premises.

The buildings disposed of in 2019 include an asset with carrying amount BGN 161 thousand, which has been reclassified to "investment property".

Intangible assets

	Licenses	Software	Prepayments for IA acquisition	Total intangible assets
Book value	607	1,007	-	1,614
1 January 2019	-	282	-	282
Additions	(19)	(51)	-	(70)
31 December 2019	588	1,238	-	1,826
Additions	-	246	98	344
Disposals	(74)	(100)	-	(174)
31 December 2020	514	1,384	98	1,996
Accumulated depreciation				
1 January 2019	(273)	(754)	-	(1,027)
Depreciation charge for the year	(78)	(89)	-	(167)
Depreciation written-off	18	45	-	63
31 December 2019	(333)	(798)	-	(1,131)
Depreciation charge for the year	(77)	(126)	-	(203)
Depreciation written-off	74	88	-	162
31 December 2020	(336)	(836)	-	(1,172)
Net carrying amount				
31 December 2019	255	440	-	695
31 December 2020	178	548	98	824

As at 31 December 2020, intangible assets include assets of book value BGN 29 thousand (31 December 2019: BGN 181 thousand), which have been fully depreciated, but continue to be used in the Bank's operations.

11. INVESTMENT PROPERTY

	2020	2019
Balance at the beginning of the year	**12,751**	**12,590**
Reclassified from property, equipment and right-of-use assets	-	161
Property acquired from finance lease	2,725	-
Balance at 31 December	**15,476**	**12,751**

The fair value of investment property has been categorised as Level 3 fair values based on the input used in the valuation technique. The fair values have been determined using the methods determined by IFRS 13 and the International Valuation Standards and references of market evidence on transactions or bid prices of similar property (Note 29.5).

The Bank's investment property as at 31 December 2020 comprises a hotel complex, regulated landed property, and retail properties. A certain part of the investment property is leased for a period of one year with an extension option and one-month termination notice. The rental income from investment property for the year ended 31 December 2020 amounts to BGN 244 thousand (31 December 2019: BGN 331 thousand) and is included in rental income in Note 21.

All amounts are in BGN '000, unless explicitly stated otherwise

12. OTHER ASSETS

	31.12.2020	**31.12.2019**
Assets acquired from non-performing loans	18,710	19,531
Deferred expenses	284	217
Guarantee deposits	63	69
VAT receivable	5	1
Advance payments	3	171
Other assets	406	365
Total	**19,471**	**20,354**

Assets acquired under non-performing loans
The fair values of assets acquired under non-performing loans are categorized as Level 3 fair values for disclosure purposes based on the inputs used in the valuation approach. The valuations have been done in compliance with the methods set in IFRS 13 and the International Valuation Standards and the reference for market evidence based on transactions or bids for similar properties. Additional information about the inputs used in determining their fair value and the types of assets acquired under non-performing loans is provided in Note 29.5.

13. DEPOSITS FROM BANKS

The deposits from banks amount to BGN 45 thousand (31 December 2019: BGN 113 thousand) and have maturity of up to three months.

14. DEPOSITS FROM CUSTOMERS

	31.12.2020	**31.12.2019**
Individuals' accounts		
- Deposits on demand and savings accounts	93,738	85,081
- Term deposits	161,260	168,768
State Budget accounts		
- On demand deposits	8,854	9,696
Corporate accounts		
- On demand deposits	54,259	53,456
- Term deposits	32,627	28,518
Accounts of other non-bank financial institutions		
- On demand deposits	125	757
- Term deposits	200	
	351,063	**346,276**

As at 31 December 2020, 5.91% (31 December 2019: 6.07%) of customers' deposits are funds of the main shareholder and related parties thereto.

Customer deposits includes customers' cash blocked by the Bank: for collateral of loans and bank guarantees at the amount of BGN 1,537 thousand (31 December 2019: BGN 1,182 thousand), as well as accounts under special conditions: accumulation accounts at the amount of BGN 2,196 thousand (31 December 2019: BGN 4,333 thousand).

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15. DEFERRED TAX ASSETS

Deferred income tax assets as at 31 December are related to the following items:

	31.12.2020	**31.12.2019**
Deferred tax assets:		
Differences between accounting and tax depreciation	29	28
Long-term employee benefits	54	-
Unused paid leaves	9	8
Total deferred tax assets	**92**	**36**

Deferred tax assets as at 31 December 2020 and 2019 have been calculated by applying a tax rate of 10%, determined in accordance with the Corporate Income Taxation Act and applicable for periods of temporary differences.

On recognising deferred tax assets, the probability for a reversal of the individual differences and the abilities of the Bank to generate sufficient taxable profit in the future, have been taken into account.

As at 31 December, the Bank does not recognise deferred tax assets at the amount of BGN 306 thousand (31 December 2019: BGN 482 thousand) on accumulated tax loss of BGN 3,062 thousand (31 December 2019: BGN 4,819 thousand) and at the amount of BGN 468 thousand (31 December 2019: BGN 503 thousand) for other temporary differences at the amount of BGN 4,684 thousand (31 December 2019: BGN 5,031 thousand), in so far as there is uncertainty regarding the future taxable profit against which they can be deducted.

16. OTHER LIABILITIES

	31.12.2020	**31.12.2019**
Lease liabilities	2,850	3,027
Long-term retirement benefit obligation	290	279
Accruals for unused paid leave	74	71
Ongoing bank transfers	23	219
Remeasurement of financial guarantees and loan commitments	19	16
Other liabilities	196	225
	3,452	**3,837**

Bank transfers
Ongoing bank transfers represent liabilities on money transfers ordered by customers in the last day of 2020 and 2019 respectively, with value date within two days. The transfers are processed up to the second working day of 2021 and 2020, respectively.

Payables to personnel
According to the provisions of the Labour Code, upon termination of employment relations, if the worker or employer is entitled to pension for length of service and age, the Bank is obliged to pay a compensation amounting to double the gross monthly remuneration. If the worker or employee has worked at the Bank over the last 10 years, the amount of the compensation equals 6 gross monthly salaries. As at 31 December 2020 and 31 December 2019, the Bank accrued BGN 23 thousand and BGN 219 thousand respectively for retirement benefit obligations, and the provision amount has been determined by a licensed actuary.

The main assumptions used by the licensed actuary upon determining the present value of the obligations are as follows:

- Updated mortality rate and average longevity of population in Bulgaria by the National Statistical Institute;
- Disability probability;
- Turnover rate – 0.2133;
- Financial assumptions, 1.5% salary growth as compared to the previous year;
- Discount rate – due to the long-term nature of the payable, annual discount rate of 2.91% has been applied.

Lease liabilities
The change in the lease liabilities is presented in the table below:

	2020	2019
Balance at 1 January	3,027	3,695
Accumulated interest	13	16
Principal payments	(1,059)	(1,071)
Interest payments	(13)	(16)
Extended	904	522
Terminated	(22)	(119)
Balance at 31 December	**2,850**	**3,027**

The maturity analysis of lease liabilities is presented in Note 29.3

17. EQUITY AND RESERVES

17.1. Share capital

As at 31 December 2020 and 2019, the Bank's share capital is fully paid and is distributed in registered voting shares, as follows:

	31.12.2020	31.12.2019
Number of shares	6,800,000	6,800,000
Share nominal in BGN	10	10
Share capital (BGN'000)	**68,000**	**68,000**

As at 31 December 2020 and 2019, the Bank's shareholder structure is as follows:

	31.12.2020	%	31.12.2019	%
Tokushukai Incorporated	6,796,250	99.94	6,796,250	99.94
Gamma Holding Group AD	3,750	0.06	3,750	0.06
Total shares	**6,800,000**	**100**	**6,800,000**	**100**

17.2. Reserves

A summary of the Bank's reserves is presented in the table below:

	31.12.2020	31.12.2019
Statutory reserves (Reserve Fund)	2,967	1,815
Reserve of financial assets at fair value though other comprehensive income	623	949
Actuarial losses on revaluation of defined income retirement plans	(10)	(10)
	3,580	**2,754**

Statutory reserves (Reserve Fund)
According to the Bulgarian legislation, the Bank is obliged to allocate a portion of its profit to the Reserve Fund until the amount thereof reaches at least 1/10 of the capital envisaged by the Statute.

The funds in the Reserve Fund may only be used to cover present- or past-year losses, and when they exceed 1/10 of the capital envisaged by the Statute, the excess may also be used to increase capital. In addition, under the Credit Institutions Act banks are not allowed to pay dividends before reaching the minimum reserves required by law or by the Statute, or in case the distribution of dividends will result in violation of the regulatory capital adequacy ratios.

Reserve of financial assets at fair value through other comprehensive income
The reserve of financial assets at fair value through other comprehensive income is formed from the effects of remeasurement of securities measured at fair value through other comprehensive income. Upon derecognition of

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debt securities, the reserve is recycled through the statement of profit and loss and other comprehensive income (through profit or loss for the period). Upon derecognition of equity securities, the reserve is not recycles through the statement of profit and loss and other comprehensive income (through profit or loss for the period).

18. NET INTEREST INCOME

	2020	2019
Interest income		
Loans and advances to banks	103	415
Loans and advances to customers	9,643	9,243
Financial assets at FVOCI	367	717
Financial assets at FVPL	84	245
	10,197	**10,620**
Interest expenses		
Deposits, including:	952	1,277
Individuals	932	1,245
Corporate clients	18	27
State budget	2	5
Current accounts at other banks	134	276
Lease liabilities	13	16
	1,099	**1,569**
Net interest income	**9,098**	**9,051**

In 2020 the Bank accrued interest income on loans and advances to customers classified at Stage 3, at the amount of BGN 1,401 thousand (2019: BGN 1,301 thousand).

19. NET FEE AND COMMISSION INCOME

	2020	2019
Fee and commission income		
Money transfers	1,185	1,503
Account servicing	979	827
Loans granted	862	736
Card servicing	344	367
Cash transactions	449	431
Guarantee servicing	83	99
Other	11	11
	3,913	**3,974**
Fees and commissions expenses	**2020**	**2019**
Card servicing	188	181
Money transfers	5	6
Insurance	4	7
Account opening and servicing	33	31
Other	47	34
	277	**259**
Net fee and commission income	**3,636**	**3,715**

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20. NET TRADING INCOME

	2020	2019
Loss on revaluation of financial assets at FVPL	(17)	(5)
Foreign exchange gains	377	291
	360	**286**

21. OTHER OPERATING INCOME

	2020	2019
Net gain on sale of debt instruments at FVOCI	-	124
Rental income	375	442
Net foreign exchange revaluation gain	25	8
Gain on sales of property and equipment	-	8
Dividends	13	2
Net loss on assets written-off, other than assets held for sale	(22)	(28)
Loss on non-current assets held for sale	(31)	(14)
Other operating income (net)	89	170
	449	**712**

22. GAIN AND LOSS ON IMPAIRMENT AND PROVISIONS

	2020	2019
Reversed impairment of receivables from the Central Bank	(7)	(11)
Reversed impairment of debt instruments at FVOCI	(22)	(109)
Reversed impairment of loans and advances to banks	-	(4)
Impairment (charged)/reversed on customer loans and receivables	519	(614)
Impact of modification of loans and advances to customers	174	39
Remeasurement of financial guarantee contracts and loan commitments	3	4
Impairment of non-financial assets	59	58
	726	**(637)**

23. PERSONNEL EXPENSES

	2020	2019
Salary expenses	5,359	5,494
Social security contributions	628	657
Health insurance contributions	225	230
Expenses for additional mandatory pension insurance	121	123
	6,333	**6,504**

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24. OTHER ADMINISTRATIVE AND OPERATING EXPENSES

	2020	**2019**
Hired services	1,281	1,415
Contributions to the Deposit Insurance Fund	894	965
Unrecognised VAT expenses	648	661
IT licenses and support	721	546
Utility costs	295	304
Contributions to the Banks Restructuring Fund	269	280
Litigations	116	46
Office supplies	120	118
Other expenses	692	769
	5,036	**5,104**

The expenses for statutory joint audit of the annual financial statements for year 2020 amount to BGN 63 thousand (2019: BGN 63 thousand). The expenses for other services granted by the registered auditors in 2020 amount to BGN 8 thousand (2019: BGN 8 thousand).

25. INCOME TAX BENEFIT

The main components of the tax expenses for the periods ended on 31 December are:

	2020	**2019**
Deferred tax	56	64
Total benefit from income tax carried to the statement of comprehensive income (within profit or loss for the year)	**56**	**64**

Reconciliation between profit/(loss) before tax and the tax benefit/expense:

(Loss)/profit before income tax	(207)	1,089
Tax at 10% applicable tax rate for 2020 (2019: 10%)	21	(109)
Effect of unrecognized amounts in the tax return related to:		
increases	(118)	(156)
decreases	151	201
Tax loss deducted	2	128
Total benefit from income tax carried to the statement of comprehensive income (within profit or loss for the year)	**56**	**64**

26. RELATED PARTY TRANSACTIONS

The Bank's related parties and the types of relation are as follows:

Related parties	**Type of relation**	**Period of relation**
TOKUSHUKAI INCORPORATED	Main shareholder	2019 and 2020
GLOBAL-PRIME OOD	Companies under common control	2019 and 2020
AMERICA FOR BULGARIA FOUNDATION	Company related through key management personnel	2020

The key management personnel is disclosed in Note 1.

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As at 31 December 2020 and 31 December 2019, the Bank has receivables from and payables to related parties, as follows:

Related parties and balances	**31.12.2020**	**31.12.2019**
Main shareholders		
Deposits received	17,541	17,933
Companies under common control		
Deposits received	2,660	3,072
Company related through key management personnel		
Deposits received	558	-
Key management personnel		
Loans granted	32	42
Deposits received	268	61

The income and expenses of the Bank in 2020 and 2019 from related party transactions are as follows:

Related parties and types of transactions	**2020**	**2019**
Main shareholder		
Fees and commissions income	1	2
Interest expense	3	3
Companies under common control		
Fees and commissions income	1	2
Interest expense	3	4
Company related through key management personnel		
Interest expense	1	-
Key management personnel		
Fees and commissions income	2	-
Interest expense	2	-

The transactions' conditions do not deviate from market conditions for such transactions.

The remuneration to the Supervisory Board members accrued and paid in 2020 amount to a total of BGN 72 thousand (2019: BGN 61 thousand). The remuneration to the Management Board members paid in 2020 amount to a total of BGN 431 thousand (2019: BGN 428 thousand).

27. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the statement of cash flows include:

	31.12.2020	**31.12.2019**
Cash in hand (Note 4)	10,328	9,570
Cash with the Central Bank (Note 4)	39,133	43,623
Current accounts with local banks (Note 5)	479	1,291
Current accounts with foreign banks (Note 5)	5,560	4,791
Deposits to banks with original maturity of up to three months (Note 5)	25,151	20,081
Total cash and cash equivalents	**80,651**	**79,356**

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28. COMMITMENTS AND CONTINGENCIES

The Bank's commitments and contingencies include guarantees issued and undrawn loan commitments.

	31.12.2020	**31.12.2019**
Guarantees	3,016	4,713
Undrawn loan commitments	29,659	25,030
	32,675	**29,743**

As at 31 December 2020, the Bank has charged provisions for credit losses on financial guarantee contracts and loan commitments at the amount of BGN 19 thousand (31 December 2019: BGN 16 thousand). The provisions accrued for credit losses in the statement of comprehensive income for years 2020 and 2019 are disclosed in Note 22).

29. MANAGEMENT OF THE RISK RELATED TO FINANCIAL INSTRUMENTS

The risk for the Bank related to financial instruments is the possibility that the actual proceeds from financial instruments could differ from the expected proceeds. The specifics of banking operations requires the Bank to apply adequate systems for timely identification and management of different types of risk, with special focus on risk management procedures, mechanisms for maintaining risks within reasonable limits, optimal liquidity, portfolio diversification. The main risk management objective is presentation and analysis of the types of risk exposures of the Bank in a comprehensive and conclusive manner.

The risk management system has preventive functions with regard to loss prevention and control of the amount of incurred losses and includes:
- risk management policy;
- rules, methods and procedures for risk assessment and risk management;
- risk management organizational structure;
- parameters and limits for transactions and operations;
- procedures for reporting, assessment, notification and subsequent control of risks.

The organizational structure for risk management is centralized and is structured based on competence levels, as follows:

- Management Board – determines the acceptable risk levels of the Bank within the adopted business strategy;
- Specialized collective committees – approve the framework and parameters of the Bank's operations with respect to risk management;
- Executive Directors – control the process of approval and implementation of adequate policies and procedures within risk management strategy adopted by the Bank;
- Heads of structural units within the Bank – implement the adopted risk management policy within the operations of the respective organizational units.

The main types of financial risks the Bank is exposed to are credit risk, liquidity risk and market risk, which includes interest, currency and price risk.

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29.1. Financial assets and liabilities

The tables below present the carrying amounts and fair values of financial assets and liabilities:

31 December 2020	**Carrying amount**	**Fair value**
Financial assets		
Cash and balances with the Central Bank	49,461	49,461
Loans and advances to banks	31,190	31,190
Loans and advances to customers	225,197	228,622
Financial assets at FVPL	9,529	9,529
Debt instruments at FVOCI	38,753	38,753
Equity instruments at FVOCI	293	293
Total assets	**354,423**	**357,848**
Financial liabilities		
Deposits from banks	45	45
Deposits from customers	351,063	351,260
Lease liabilities	2,850	2,850
Other financial liabilities	23	23
Total liabilities	**353,981**	**354,178**

31 December 2019	**Carrying amount**	**Fair value**
Financial assets		
Cash and balances with the Central Bank	53,193	53,193
Loans and advances to banks	26,163	26,163
Loans and advances to customers	208,029	211,226
Financial assets at FVPL	37,434	37,434
Debt instruments at FVOCI	26,941	26,941
Equity instruments at FVOCI	293	293
Total assets	**352,053**	**355,250**
Financial liabilities		
Deposits from banks	113	113
Deposits from customers	346,276	346,618
Lease liabilities	3,027	3,027
Other financial liabilities	219	219
Total liabilities	**349,635**	**349,977**

29.2. Credit risk

Credit risk is the risk of loss due to the probability that counterparty will be unable to settle its obligations when they are due. The Bank structures the credit risk by setting limits on the maximum credit risk exposure to a debtor, to a group of related parties, by relevant business sectors. Adequate collateral and guarantees are required in order to reduce the credit risk, according to the adopted internal credit rules.

A special event for 2020 was that, taking into account the significant uncertainty and economic situation caused by the COVID-19 pandemic, the Bank joined the private moratorium on payments approved by the BNB and the Association of Banks in Bulgaria (ABB) and began to apply loan relief meeting the criteria under the Procedure for deferral and settlement of due liabilities on regular exposures of its borrowing customers affected by the measures related to the COVID-19 pandemic and other measures aimed at effective loan portfolio management and credit risk assessment during the pandemic (Note 1.6). Management has monitored and focused on this situation throughout the year when analysing changes in credit risk at the level of industries, portfolios and specific debtors, with a specific individual approach used with respect to debtors.

Cash and cash balances with the Central Bank, at the amount of BGN 49,461 thousand and BGN 53,193 thousand, respectively as at 31 December 2020 and 31 December 2019, do not bear credit risk to the Bank due to their nature and the fact that they are at the Bank's disposal.

Loans and advances to banks at the amount of BGN 31,190 thousand and BGN 26,163 thousand respectively as at 31 December 2020 and 31 December 2019 consist mostly of deposits with first-class international and Bulgarian banks with maturity of up to seven days. The Bank manages the credit risk related to loans and advances to banks, by setting exposure limits at counterpart level.

Counterpart risk is considered at the following levels:
- sovereign risk – impossibility or unwillingness of a country's government to repay its obligations;
- state-related risk – the risk of adverse changes in the social and political and/or economic situation in a country, as a result of which the Bank would take additional political and cross-border risks, such as moratorium on payments or impossibility of currency conversion;
- banking risk – the risk of deterioration of the financial condition of a bank or non-bank financial institution 0 counterparty, including insolvency, as a result of which the Bank would take additional risks and would incur losses;
- pre-settlement risk – the risk of deterioration of the financial condition of a certain bank-counterpart, including insolvency, as a result of which it is unable to meet its contractual obligations before the settlement date. This risks exists in trade in securities, debt instruments, FX and derivatives;
- settlement risk – the risk that occurs on the date of settlement and consists of impossibility to meet contractual obligations.

The counterpart risk level is determined based on the following ratings:
- official rating – short-term rating in accordance with the long-term rating of a country or bank, prepared by the following rating agencies – Moody's, Tompson Bank Watch, Standard & Poors, Fitch;
- working rating – the rating of the respective bank as prepared by Tokuda Bank AD in case of lack of rating prepared by one of the agencies listed above;
- internal rating – the rating of a bank as determined by Tokuda Bank AD in accordance with the "Internal Rating Scale for Bank Counterparts". The internal rating is based on the official or working rating and directly corresponds to a certain "global banking limit". The internal rating of a non-bank financial institution is only determined in case of availability of official ratings by at least one of the rating agencies listed above.

Based on the internal rating, a global banking limit is determined, which is the lower of the permissible percentage of the Bank's capital and the permissible percentage of the counterpart's capital, and the percentages are determined based on a rating scale.

Financial assets held for trading, at the amount of BGN 9,529 thousand BGN 37,434 thousand, respectively as at 31 December 2020 and 31 December 2019, pose mainly a market risk to the Bank (Note 29.4). The maximum exposure to credit risk for these instruments is their carrying amount.

Debt instruments at FVOCI amount to BGN 38,753 thousand and BGN 26,941 thousand as at 31 December 2020 and as at 31 December 2019. The maximum exposure to credit risk for these instruments is their carrying amount.

The credit risk associated with loans and receivables from banks and with the securities portfolio did not increase in 2020, including in the context of impacts from crisis situations due to the COVID-19 pandemic. The Bank has adhered to and continues to adhere to the established methods for risk assessment and classification of financial assets and monitors for periodic changes in the credit ratings of counterparty banks and issuers of securities, including as consequences of the pandemic economic situation at regional, state and individual level. In 2020, the Bank invested in lower risk and short-term securities.

The contingent liabilities of the Bank consist of guarantees issued and undrawn loan amounts, whose amount of BGN 32,675 as at 31 December 2020 and BGN 29,743 thousand as at 31 December 2019 (Note 28) is the Bank's maximum credit exposure.

Loans and advances to customers with carrying amount of BGN 225,197 thousand and BGN 208,029 thousand, respectively, as at 31 December 2020 and 31 December 2019, bear credit risk to the Bank. The exposure of the Bank to that risk is determined on the basis of individual assessment of each loan, as the Bank applies the criteria for assessment and classification of risk exposures according to the Policy for impairment of financial assets and contingent liabilities.

The Bank has prepared and applies instructions and guidelines related to the implementation of a package of measures to help deal with the financial impact and consequences of the COVID-19 pandemic on lending. The aim is to maintain the quality of the loan portfolio and minimise losses for the Bank, including by renegotiating the terms of loan transactions of borrowers whose solvency is likely to worsen due to the pandemic. Criteria have been defined for taking immediate measures against the specific debtor. Customers with deferred payments under the moratorium are monitored on a monthly basis.

Early signals of increased risk have been adopted for monitoring and reporting when taking measures to renegotiate loans under the moratoriums. Recognising and analysing early signs of increased risk is an ongoing process.

Management has identified the following potentially risky sectors (Note 8.2), requiring increased attention and individual approach to assessment:

- Other activities serving society and the individual;
- Art, print media, media and advertising;
- Light processing industry;
- Immovable and movable property transactions, renting and business activities;
- Construction;
- Transport;
- Tourist services;
- Trade, repair and maintenance of cars, personal belongings and household goods;
- Individuals and households;
- Financial, insurance and insurance services;
- Human health, sports and social activities.

In order to limit the impact of the COVID-19 pandemic on lending, the following changes were made in 2020:

- The following internal lending-related documents have been adopted to regulate changes in internal processes, business strategy and risk assessment:
  - Instructions and guidelines related to the need to implement a package of measures to help deal with the financial impact of COVID-19 on lending;
  - Additional instructions of Tokuda Bank regarding a moratorium on repayment of loans to individuals and business and specific measures in connection with the procedure approved by the BNB for deferral and settlement of due liabilities to banks and their financial institution subsidiaries in connection with the actions taken by Bulgarian authorities to limit the pandemic of COVID 19 and their consequences;
  - Operational plan for assessment of the probability of non-performance of loans renegotiated under the Procedure for deferral and settlement of due liabilities to banks and their financial institution subsidiaries in connection with the actions taken by Bulgarian authorities to limit the pandemic of COVID 19 and their consequences, as adopted by the Management Board of ABB and approved by the Management Board of the BNB on 10 December 2020;
  - Addendum to the methodology for preparing an Internal Capital Adequacy Assessment of Tokuda Bank AD to measure the effect of the Covid-19 pandemic in the capital requirements under Pillar II;
- The processes and conditions for renegotiating loans under the moratoriums on payment approved by the BNB, the assessment of the probability of default and the monitoring of those loans have been regulated.
- Early signals of increased risk have been adopted for monitoring and reporting when taking measures to renegotiate loans under the moratoriums.
- Restrictions and changes in the terms of new loans – they are applied on a case-by-case assessment by the Bank for each individual loan proposal:
  - For loans to individuals: individual assessment for transactions where income from the annual tax return is accepted; cautious consideration of income from the sectors accepted by the Bank as risky due to COVID-19; restrictions on the location of collateral and LTV (for mortgage loans); for consumer loans over BGN 30,000, it is highly recommended to seek a guarantee, regardless of the borrower's creditworthiness, etc.;
  - For loan transactions with businesses: an individual approach is used in assessment and, if possible, the following requirements should be met: transactions with businesses that deviate from the standard parameters for LTV and creditworthiness adopted by the Bank are not considered;

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transactions with businesses primarily engaged in activities in potentially risky sectors due to COVID-19 are considered cautiously and only if they have acceptable collateral.

The number of exposures as of 31 December 2020, on which reliefs under the moratorium have been applied, are as follows:

31 December 2020		**Performing**			**Non-performing**	
Customer type	**No**	**Gross carrying value**	**Net carrying value**	**No**	**Gross carrying value**	**Net carrying value**
Corporate customers	72	52,704	52,702	8	2,740	2,740
Individuals	61	3,802	3,574	1	21	-
Total	**133**	**56,506**	**56,276**	**9**	**2,761**	**2,740**

The competent body for monitoring, assessment and classification of financial assets and contingent liabilities and determination of impairment losses and provisions is the Committee for analysis, classification and provisioning (CACP), which performs its activities according to rules set by the Management Board.

Credit risk assessment and management is essential for the Bank. Traditionally, the loan portfolio is the largest share of the Bank's total assets.

The bodies responsible for managing the Bank's credit risk are the Management Board, the Credit Committee and the Committee for analysis, classification and provisioning. The structure and activities of these bodies are regulated in their rules of operation. The operational duties of the Bank's divisions and officials on credit risk management are regulated in the internal documents.

The Bank's Management Board determines the parameters and limits of performing transactions related to credit risk. Reports and analyses to the MB are prepared by the Risk Monitoring and Management (RMM) Division at the end of each quarter.

Credit risk monitoring and control are carried out at the level of:
- loan transaction:
    - upon forming the credit exposure.
    - after forming the credit exposure.
- loan portfolio.

Credit risk monitoring and control have a continuous nature and are implemented through a system of procedures and measures, including allocation of responsibilities between the Head Office structural departments and the Bank's branches.

Control over the credit process at loan transaction level includes:
- assessment (rating) of the customer's creditworthiness, including with respect to financial condition, business risk, and collateral;
- assessment of the banking credit risk, including share of the proposed exposure in the total loan portfolio and capital base, etc.

Control over the credit process at loan portfolio level includes:
- assessment of the quality of the loan portfolio based on coefficients reflecting:
    - the share of loans stated in groups other than "performing", to the total amount of the loan portfolio;
    - provisioning ratio;
    - share of impairment on exposures to the total impairment on the loan portfolio.
- proposal on limits reflecting the credit policy applied:
    - limits by sectors;
    - maximum exposure to the borrower and a group of related parties.

<u>Internal structure and units involved in credit risk management</u>
The Corporate Banking Division and Retail Lending Division at the Bank's Head Office, as well as the loan specialists at the Bank's branches where such a position exists:

- identify, coordinate and are responsible for the Bank's customer relations on loan transactions, as well as for attracting new customers;
- collect the necessary information and prepare a company, market and financial analysis and loan proposals to the Credit Committee;
- administer, monitor and manage the loan portfolio, including collection;
- apply, coordinate and are responsible for and report on the results from the Bank's lending activity in accordance with the approved lending policy.

The credit risk management departments at the Bank's Head Office are responsible for preventive control over structured transactions, degree of collateral, meeting the applicable limits, and analyse and provide a written opinion on the credit risk taken and the permissibility of the loan request by loan proposals, in accordance with procedures regulated in the Policy, rules and procedures for the lending activity at Tokuda Bank AD.

The Loan Administration (LA) Division at the Bank's Head Office:
- reviews, approves and controls the loan documentation and its compliance with the competent bodies on the loan transactions;
- keeps a register of collaterals and of related parties;
- monitors and controls compliance with the conditions envisaged in the loan agreements and annexes thereto;
- controls the process of updates of collateral valuation, as well as collaterals' validity;
- controls the process of updates (renewal) of collaterals' insurance.

The Court Receivables Department at the Bank's Head Office monitors and controls, together with other units, loans past due by over 90 days or upon the occurrence of other events demanding early repayment, and carries out the collection process of all due receivables on forced execution loans.

The Legal Division at the Bank's Head Office analyses and provides opinions on the legal risks to the loan transaction, as well as on the collateral offered and participate in the approval and preparation of loan agreement and in the process of collateral incorporation.

The Credit Committee is a collective body to the MB, whose main task is to manage the lending process. Its activities are subordinated to the provisions of the Credit Institutions Act and the other legal acts on lending relations, the Bank's lending policy, internal regulations and rules on the organisation of its activities. The Credit Committee examines and takes decisions on proposals for granting new exposures and changes on existing exposures (including renegotiation, restructuring, early repayment, forced execution, etc.) at an amount of up to 10% of the Bank's capital base, and proposes for review loan proposals for exposures exceeding 10% of the capital base.

The Committee for analysis, classification and provisioning (CACP) in its capacity as the Bank's competent body on monitoring, measurement and classification of financial assets and contingencies and on determining impairment losses and provisions, makes decisions on the classification and determining of impairment losses on financial assets and on determining provisions for contingencies. The activities of CACP are subordinated to the provisions of the Credit Institutions Act, the effective legislation in the country, and the Bank's internal regulations.

The methodology on determining impairment provisions applies the classification according to the rules set out in Regulations 2014/680 и 2015/1278. The management considers expositions as non-performing and performing.

A non-performing exposure is one that has significant breaches in its servicing or there is evidence that the financial position of the debtor is deteriorated to the extent that current and anticipated proceeds are insufficient to pay all its debts to the Bank and other creditors and when the Bank expects to incur losses. Non-performing is also exposure for which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral regardless of the existence of any past due amount or of the number of days past due, with the exception of exposures where the realization of collateral is set in the initial loan agreement repayment schedule. Additionally, an exposure is classified as non-performing when it meets any of the following criteria:
- it has accumulated arrears on principal or interest more than 90 days;
- the exposure is individually impaired;
- the financial position of the debtor has substantially deteriorated, which may jeopardize repayment;
- debtor has been declared bankrupt or is in liquidation procedure and there is risk of leaving unsatisfied creditors;
- the balance sheet receivable is subject to legal proceedings or is granted to the Bank by the court but is not collected.

A performing exposure is an exposure that cannot be classified as non-performing.

A restructured exposure is an exposure in respect of which restructuring measures have been applied. The restructuring measures consist of concessions towards a debtor that is experiencing difficulties in meeting its financial commitments. An exposure is not restructured when there are no indications that the debtor experience difficulties in meeting its financial commitments. The Modifications in the terms of the contract which applies concessions towards debtor that is experiencing difficulties in meeting its financial commitments may include, but are not necessarily limited to a reduction in the interest rate, principal, accrued interest or rescheduling of principal and/or interest repayment dates.

Policy and process of impairment of loans and advances to customers

Significant increase in credit risk following initial recognition
At each reporting date the Bank assesses whether the credit risk of a financial instrument has significantly increased following the instrument's initial recognition. In this assessment, the Bank considers the change in risk of default over the expected life term of the financial instrument, by comparing the risk of default of the financial instrument at the reporting date with the same risk at the date of initial recognition and considers the reasonable and grounded information accessible without incurring unnecessary costs or efforts which confirms a significant increase in credit risk following the initial recognition.

Objective evidence of a significant increase in the credit risk of the financial instrument following initial recognition:
- quantitative criteria: delay in loan payments by over 30 days, a significant increase in the probability of default over the next 12 months – as at the reporting date;
- qualitative criteria: change in the risk group of exposure to the customer from "Performing" to "Under-Performing", "Non-Performing", or "Loss", which is not due to reclassification of exposures of the customer's related parties to the Bank; data from a filled-in questionnaire on assessment of the loan quality (the questionnaires examine the presence of increased credit risk or credit impairment since the date of loan disbursement, and the assessment is done based on a set of questions regarding the financial position, liquidity, legal status, etc., each of which has a certain weight in the final rating; other reasonable and grounded information.

Credit impairment following initial recognition:
The financial asset is credit-impaired following the initial recognition upon occurrence of a combination of events, which may include significant financial difficulties of the debtor, resulting in impossibility to repay the debt in full.

Objective evidence of credit impairment of the financial assets includes:
- quantitative criteria: delay in loan payments by over 90 days.
- qualitative criteria: change in the risk group of exposure to the customer to "Non-Performing" or "Loss" which is not due to reclassification of exposures of the customer's related parties to the Bank or classification as "Court" or "Awarded" status; reasonable and grounded information, data from a filled-in questionnaire on assessment of the loan quality.

Financial assets purchased or initially created with a big discount which reflects credit losses incurred are classified as "POCI" - Purchased or originated credit impaired) and are classified within credit-impaired financial assets.

Stages of classification of credit exposures
Depending on the presence of significantly increased credit risk following initial recognition and of credit impairment following initial recognition, credit exposures are classified in the following stages:
- Stage 1 – there is no significantly increased credit risk of the exposure following its initial recognition;
- Stage 2 – there is a significant increase in the credit risk following initial recognition;
- Stage 3 – there is credit impairment.

The classification stage of loan exposures is determined at each reporting date based on the assessment of presence of a significant increase in the credit risk following initial recognition and of credit impairment.

Determining expected credit losses on loan exposures
Individual and collective impairment assessment of loan exposures

Loan exposures individually assessed for impairment are all significant exposures (exposures exceeding BGN 500 thousand) at Stage 3 and other exposures based on the Bank's judgement. Loan exposures collectively assessed for impairment are all loan exposures which are not individually assessed for impairment. Upon determining the expected credit losses on loan exposures, the Bank uses different approaches, depending on whether the loan exposures is assessed for impairment individually or collectively.

Determining expected credit losses for loan exposures collectively assessed for impairment

The approaches used to determine expected credit losses take into consideration the historic behaviour of loan exposures and the expected future development of certain macro-economic, market, statutory and other factors that impact the borrowers' ability to service their payables under loan exposures. Expected credit losses are determined at loan level and are calculated using the formula ECL = EAD x PD x LGD, where:

- EAD (exposure at default) = current balance sheet exposure + CCF x unused part of the available limit, where CCF – credit conversion factor; EAD for off-balance sheet commitments = CCF x off-balance sheet commitment;
- PD (probability of default) – the probability of occurrence of default applicable for the loan, calculated based on the model of calculation of possibilities of default. For loans at Stage 1, probability of default over the next 12 months is used. For loans at Stage 2 and Stage 3, probability of default over the financial instrument's life term is used;
- LGD (loss given default) – loss upon occurrence of default – it is the difference between the loan exposure and the total amount of NRV (as defined below) of the available loan collaterals (if NRV>0) and the amount of the loan exposure; if NRV of the collaterals exceed the credit exposure, LGD = 0;
- NRV (Net Realizable Value) – net realizable value of the collateral at the respective reporting date; determined as the sum of market values of the loan's collaterals calculated by using standard assumptions for (i) expected changes in value over time, (ii) expected realisation timeframe and (iii) expected realisation costs.

The parameter values, assumptions and rules for calculation are defined in detail in the Policy on classification, provisioning and impairment of financial assets and contingent liabilities.

Determining expected credit losses for loan exposures individually assessed for impairment

Expected credit losses are determined on a loan level. The loan exposure is assessed for impairment by comparing the gross amount of the exposure with the net present value of expected cash flows from operations, sale of collateral, or other sources. Expected cash flows have a forecast nature and at least two main scenarios are taken into consideration in the analysis: (i) a scenario in which the exposure is regularly services in accordance with the effective repayment schedule and (ii) a scenario in which the exposure is repaid by realisation of the collateral. The expected cash flows from realisation of the collateral are determined individually for the respective exposure. The net present value of the cash flows in the different scenarios is weighted to reach a total result, which is compared with the loan's gross amount. The expected credit losses are the difference between the loan's gross amount and the weighted net present value of the expected cash flows in the different scenarios.

In order to minimise the credit risk in the lending process, detailed procedures are applied for the analysis of the economic purpose of each project, the types of collateral acceptable for the Bank, control over the use of the loans granted and the administration related to this activity. The Bank has adopted and monitors limits of credit exposure by sectors. These limits aim to restrict concentration of the loan portfolio which would result in increased credit risk.

In order to take into account the impact of the COVID-19 pandemic on the loan portfolio, in 2020 the Bank adopted the following changes to the model used to determine ECLs:

- Higher PD is applied to Phase 1 and 2 loans to borrowers operating in risk industries due to COVID-19, as defined by the Bank.
- The terms for disposing of collateral used in LGD for all loans assessed collectively impairment have been extended.
- Extended terms for disposing of collateral have been applied in the relevant scenarios in order to determine the ECL for loans individually assessed for impairment, which are managed in "Corporate Banking".
- A periodic review is performed to determine the need for additional updating of the model, the risk industries due to COVID-19, as well as the development of the real estate market during the pandemic, including to detect clearer negative trends in the level of their market prices (insofar as management recognises that such trends have not yet been specifically identified in 2020).

Quality of balances with the Central Bank

All amounts are in BGN '000, unless explicitly stated otherwise

The tables below provide information on the credit quality and maximum exposure to credit risk of exposures to the Central Bank according to the Bank's internal risk classification. The amounts presented reflect the amortised cost of exposures before the allowance for credit losses and the allowance for credit losses in the reporting period.

Change in the gross amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**2020**
Amount on 1 January 2020	43,632	-	-	43,632
New exposures	1,286,921	-	-	1,286,921
Paid exposures	(1,291,418)	-	-	(1,291,418)
Transfer between stages	-	-	-	-
Amount on 31 December 2020	**39,135**	**-**	**-**	**39,135**

Change in the impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**2020**
Amount on 1 January 2020	9	-	-	9
New exposures	-	-	-	-
Paid exposures	(7)	-	-	(7)
Transfer between stages	-	-	-	-
Amount on 31 December 2020	**2**	**-**	**-**	**2**

Change in the gross amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**2019**
Amount on 1 January 2019	93,552	-	-	93,552
New exposures	1,160,626	-	-	1,160,626
Paid exposures	(1,210,546)	-	-	(1,210,546)
Transfer between stages	-	-	-	-
Amount on 31 December 2019	**43,632**	**-**	**-**	**43,632**

Change in the impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**2019**
Amount on 1 January 2019	20	-	-	20
New exposures	-	-	-	-
Paid exposures	(11)	-	-	(11)
Transfer between stages	-	-	-	-
Amount on 31 December 2019	**9**	**-**	**-**	**9**

Quality of loans and advances to banks

The tables below provide information on the credit quality and maximum exposure to credit risk of exposures to banks according to the Bank's internal risk classification. The amounts presented reflect the amortised cost of exposures before the allowance for credit losses and the allowance for credit losses in the reporting period.

Change in the gross amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**2020**
Amount on 1 January 2020	26,166	-	-	26,166
New exposures	378,709	-	-	378,709
Paid exposures	(373,682)	-	-	(373,682)
Transfer between stages	-	-	-	-
Amount on 31 December 2020	**31,193**	**-**	**-**	**31,193**

Change in the impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**2020**
Amount on 1 January 2020	3	-	-	3
New exposures	2	-	-	2
Paid exposures	(2)	-	-	(2)
Transfer between stages	-	-	-	-
Amount on 31 December 2020	**3**	**-**	**-**	**3**

All amounts are in BGN '000, unless explicitly stated otherwise

Change in the gross amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**2019**
Amount on 1 January 2019	33,383	-	-	33,383
New exposures	373,761	-	-	373,761
Paid exposures	(380,978)	-	-	(380,978)
Transfer between stages	-	-	-	-
Amount on 31 December 2019	**26,166**	**-**	**-**	**26,166**

Change in the impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**2019**
Amount on 1 January 2019	7	-	-	7
New exposures	-	-	-	-
Paid exposures	(4)	-	-	(4)
Transfer between stages	-	-	-	-
Amount on 31 December 2019	**3**	**-**	**-**	**3**

Quality of debt and equity instruments at fair value through other comprehensive income
The tables below provide information on the credit quality and maximum exposure to credit risk of exposures to debt and equity instruments at fair value through other comprehensive income according to the Bank's internal risk classification. The amounts presented reflect the amortised cost of exposures before the allowance for credit losses and the allowance for credit losses in the reporting period.

Change in the gross amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**2020**
Amount on 1 January 2020	27,234	-	-	27,234
New exposures	31,924	-	-	31,924
Paid exposures	(20,112)	-	-	(20,112)
Transfer between stages	-	-	-	-
Amount on 31 December 2020	**39,046**	**-**	**-**	**39,046**

Change in the impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**2020**
Amount on 1 January 2020	37	-	-	37
New exposures	-	-	-	-
Paid exposures	(22)	-	-	(22)
Transfer between stages	-	-	-	-
Amount on 31 December 2020	**15**	**-**	**-**	**15**

Change in the gross amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**2019**
Amount on 1 January 2019	44,500	-	-	44,500
New exposures	-	-	-	-
Paid exposures	(17,266)	-	-	(17,266)
Transfer between stages	-	-	-	-
Amount on 31 December 2019	**27,234**	**-**	**-**	**27,234**

Change in the impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**2019**
Amount on 1 January 2019	146	-	-	146
New exposures	-	-	-	-
Paid exposures	(109)	-	-	(109)
Transfer between stages	-	-	-	-
Amount on 31 December 2019	**37**	**-**	**-**	**37**

Quality of loans and advances to customers
The tables below provide information on the credit quality and maximum exposure to credit risk of exposures to customers according to the Bank's internal risk classification. The amounts presented reflect the amortised cost of exposures before the allowance for credit losses and the allowance for credit losses in the reporting period.

All amounts are in BGN ‘000, unless explicitly stated otherwise

Change in the gross amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**2020**
Amount on 1 January 2020	**161,377**	**25,576**	**31,451**	**218,404**
New exposures	42,177	6,162	218	48,557
Paid exposures	(25,735)	(2,566)	(2,525)	(30,826)
Transfer to Stage 1	1,394	(1,312)	(82)	-
Transfer to Stage 2	(12,609)	12,859	(250)	-
Transfer to Stage 3	(530)	(2,967)	3,497	-
Amounts written-off	-	-	(1,675)	(1,675)
Amount on 31 December 2020	**166,074**	**37,752**	**30,634**	**234,460**

Change in the impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**2020**
Amount on 1 January 2020	44	80	10,251	10,375
New exposures	55	396	1,087	1,538
Paid exposures	(26)	(69)	(924)	(1,019)
Increase in the impairment allowance for unrecognised interest on loans in Stage 3	-	-	44	44
Transfer to Stage 1	1	(1)	-	-
Transfer to Stage 2	(1)	20	(19)	-
Transfer to Stage 3	-	(1)	1	-
Amounts written-off	-	-	(1,675)	(1,675)
Amount on 31 December 2020	**73**	**425**	**8,765**	**9,263**

Change in the gross amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**2019**
Amount on 1 January 2019	**142,168**	**21,118**	**32,698**	**195,984**
New exposures	49,983	1,433	21	51,437
Paid exposures	(24,184)	(2,273)	(1,073)	(27,530)
Transfer to Stage 1	208	(208)	-	-
Transfer to Stage 2	(6,612)	7,049	(437)	-
Transfer to Stage 3	(186)	(1,543)	1,729	-
Amounts written-off	-	-	(1,487)	(1,487)
Amount on 31 December 2019	**161,377**	**25,576**	**31,451**	**218,404**

Change in the impairment allowance	**Stage 1**	**Stage 2**	**Stage 3**	**2019**
Amount on 1 January 2019	54	258	12,056	12,368
New exposures	23	16	1,550	1,589
Paid exposures	(33)	(88)	(2,083)	(2,204)
Increase in the impairment allowance from unrecognised interest on loans in Stage 3	-	-	109	109
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	5	(5)	-
Transfer to Stage 3	-	(111)	111	-
Amounts written-off	-	-	(1,487)	(1,487)
Amount on 31 December 2019	**44**	**80**	**10,251**	**10,375**

The change in the amount of the commitments undertaken and financial guarantee contracts and the change in the revaluation provisions is presented in the tables below:

All amounts are in BGN '000, unless explicitly stated otherwise

Change in the amount of the commitments undertaken and financial guarantee contracts	**Stage 1**	**Stage 2**	**Stage 3**	**2020**
Amount at 1 January 2020	**26,910**	**2,823**	**10**	**29,743**
New exposures	14,947	197	282	15,426
Paid exposures	(11,131)	(1,353)	(10)	(12,494)
Transfer to Stage 1	201	(201)	-	-
Transfer to Stage 2	(869)	869	-	-
Transfer to Stage 3	-	-	-	-
Amounts written-off	-	-	-	-
Amount at 31 December 2020	**30,058**	**2,335**	**282**	**32,675**

Change in the revaluation provision	**Stage 1**	**Stage 2**	**Stage 3**	**2020**
Amount at 1 January 2020	6	4	6	16
New exposures	6	7	-	13
Paid exposures	(1)	(3)	(6)	(10)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amounts written-off	-	-	-	-
Amount at 31 December 2020	**11**	**8**	**-**	**19**

Change in the amount of the commitments undertaken and financial guarantee contracts	**Stage 1**	**Stage 2**	**Stage 3**	**2019**
Amount at 1 January 2019	**22,374**	**306**	**6**	**22,686**
New exposures	19,361	1,136	10	20,507
Paid exposures	(12,440)	(1,007)	(3)	(13,450)
Transfer to Stage 1	7	(4)	(3)	-
Transfer to Stage 2	(2,392)	2,392	-	-
Transfer to Stage 3	-	-	-	-
Amounts written-off	-	-	-	-
Amount at 31 December 2019	**26,910**	**2,823**	**10**	**29,743**

Change in the revaluation provision	**Stage 1**	**Stage 2**	**Stage 3**	**2019**
Amount at 1 January 2019	7	5	-	12
New exposures	2	3	6	11
Paid exposures	(2)	(5)	-	(7)
Transfer to Stage 1	(1)	1	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amounts written-off	-	-	-	-
Amount at 31 December 2019	**6**	**4**	**6**	**16**

The information on loans and advances to customers by classification groups is as follows:

31 December 2020	Loans and advances to customers			Undrawn commitment	Guarantees		
Group	Amount	Share in %	Impairment	Amount	Amount	Share in %	Provision for credit losses
Performing	203,671	86.87	494	29,377	3,016	100.00	19
Non-performing	30,789	13.13	8,769	282	-	-	-
Total	**234,460**	**100.00**	**9,263**	**29,659**	**3,016**	**100.00**	**19**

All amounts are in BGN '000, unless explicitly stated otherwise

31 December 2019	Loans and advances to customers			Undrawn commitment	Guarantees		
Group	Amount	Share in %	Impairment	Amount	Amount	Share in %	Provision for credit losses
Performing	186,932	85.59	124	25,030	4,713	100.00	17
Non-performing	31,472	14.41	10,251	-	-	-	-
Total	**218,404**	**100.00**	**10,375**	**25,030**	**4,713**	**100.00**	**17**

	31.12.2020		**31.12.2019**	
	Past due but unimpaired	**Impaired**	**Past due but unimpaired**	**Impaired**
Not overdue	122,357	68,302	104,473	66,409
up to 30 days past due	14,386	3,170	16,257	846
31 to 60 days past due	802	164	660	59
61 to 90 days past due	659	200	342	392
91 to 180 days past due	743	187	959	125
over 180 days past due	3,811	19,679	4,076	23,806
Book value	142,758	91,702	126,767	91,637
Allowance for impairment losses	-	(9,263)	-	(10,375)
Carrying amount	**142,758**	**82,439**	**126,767**	**81,262**

The impaired exposures include those on which the Bank stated impairment.

The following table presents the Bank's portfolio based on recognised types of collaterals:

	2020	**2019**
Secured by cash and government securities	782	420
Secured by mortgage	196,602	177,297
Pledge on machines and equipment	6,916	8,248
Pledge on receivables	20,525	21,261
Other collaterals	8,206	9,147
Unsecured	1,429	2,031
Impairment	(9,263)	(10,375)
Total	**225,197**	**208,029**

The Bank accepts real estate as collateral of the *mortgage loans* it grants to its customers. The Bank monitors the collateralization of mortgage at Retail Banking, using the loan to value (LTV) ratio, which is calculated as the ratio between the gross loan amount to the collateral's market value. The collateral valuation is based on (1) external valuation by licensed appraisers from an approved list, which according to the Bank's internal rules is subject to annual review, and (2) additional review and adjustment of the value according to a technical opinion prepared by the Bank's experts. The amount of the collateral for home mortgage loans is usually based on the initial value of the collateral, updated based on changes in the home price index and respectively subject to periodic revaluation of collaterals according to the effective internal rules on lending activities. In addition, the Bank requires update of the collaterals' values upon each renegotiation, restructuring or upon commencing forced execution of individual exposures.

The table below shows mortgage loan exposures (those for the purpose of home purchase and those whose collateral is a residential property) based on LTV range. The collateral value used in LTV calculation is the lower of their market and insurance value.

All amounts are in BGN '000, unless explicitly stated otherwise

	31.12.2020		31.12.2019	
	Gross amortised cost	**Allowance for impairment loss**	**Gross amortised cost**	**Allowance for impairment loss**
LTV ratio/loan-value ratio				
Below 50%	5,744	-	4,397	-
51-70%	6,223	-	6,451	-
71-90%	8,675	-	8,889	(18)
91-100%	782	(22)	1,372	(1)
Over 100%	1,560	(84)	1,881	(197)
Total	**22,984**	**(106)**	**22,990**	**(216)**

The table below provides information on the credit ratings upon determining the credit quality of the Bank's financial assets. The Bank uses as a main source of information on credit ratings data from Fitch credit agency; and when such data is not available, it has used the rating of another rating agency (S&P).

	31.12.2020	**31.12.2019**
Balances with the Central Bank:		
rating BBB	39,133	43,623
Total balances with the Central Bank	**39,133**	**43,623**
Loans and advances to banks		
rating A+	14,348	-
rating A-	5,560	-
rating AA-	10,557	9,775
rating BBB	196	-
rating BBB+	-	4,790
rating BBB-	10	11,561
rating BB	31	36
rating BB+	487	-
no rating	1	1
Total loans and advances to banks	**31,190**	**26,163**
Financial assets at FVPL:		
rating AA+	6,375	-
rating AAA	-	31,273
rating BBB	2,996	-
rating BBB-	-	6,000
no rating	158	161
Total financial assets at FVPL	**9,529**	**37,434**
Debt instruments at fair value through other comprehensive income		
rating A	1,952	1,915
rating AA+	9,560	-
rating B+	2,064	-
rating BBB	19,238	-
rating BBB-	5,939	25,026
Total debt instruments at fair value through other comprehensive income	**38,753**	**26,941**
Equity instruments at fair value through other comprehensive income		
no rating	293	293
Total equity instruments at fair value through other comprehensive income	**293**	**293**

Financial assets held for trading with no rating are mainly corporate bonds and shares of domestic issuers for which there are no credit ratings from rating agencies. Investments in securities whose rating is lower than BBB+/positive prospect (mainly central government debt securities) are subject to the explicit approval of the Assets and Liabilities Management Committee.

Concentration of credit risk

A significant percentage of the loan portfolio of the Bank is concentrated in a limited number of borrowers. Despite the regulatory restrictions on large exposures, there is a risk that the Bank's activities, its financial position and the result of its operations are negatively affected if some of the largest borrowers do not settle their obligations. Information on large exposures of the Bank other than exposures to credit institutions (exposures which represent 10% or more of the Bank's capital base) at their carrying amount as of 31 December 2020 and 2019 is presented in the table below:

	2020		**2019**	
	BGN'000	% of the capital base	BGN'000	% of the capital base
Largest total exposure to a customer group	8,855	21.09%	7,980	19.20%
Total amount of the five largest exposures	36,523	86.99%	33,309	80.14%
Total amount of all exposures – over 10% of the capital	96,489	229.81%	78,627	189.18%

Concentration of credit risk by economic sectors is disclosed in Note 8.

29.3. Liquidity risk

Liquidity risk arises from the maturity gap of the assets and liabilities and the probable lack of sufficient funds of the Bank to meet its obligations on its current financial liabilities, as well as to provide funding to increase the financial assets and the potential claims on off-balance sheet commitments.

The Bank's operations require stable cash flows to replace the existing deposits when they expired (at maturity) and to satisfy customers' demand for additional loans.

In liquidity management, the Bank also considers commitments related to the not-utilized portion of loans granted and the level of all contingent liabilities.

To ensure the liquidity policy compliance, the Bank takes the following measures:

- develops rules and procedures for liquidity management;
- defines adequate liquid assets;
- establishes an information system to monitor liquidity based on a maturity table;
- sets liquidity measurement indicators;
- appoints a liquidity regulation body and defines its responsibilities and tasks;
- establishes a system for management and control of liquidity risk;
- develops scenarios for the Bank's action in normal circumstances - "going concern" and in a period of "liquidity crisis";
- sets the mandatory information for the current management needs, as well as for the reporting to the BNB.

The main parameters of the Bank's liquidity policy are determined by the Management Board, and the overall organization of its implementation is assigned to the Assets and Liabilities Management Committee, which is the main body responsible for the Bank's liquidity management. It is directly responsible for the liquidity status and its ongoing management, based on the decisions of the Management Board, as well as for the ongoing management of assets and liabilities. The Committee meets at least once a month, and if necessary (at the risk of a liquidity crisis) it meets daily, in order to overcome any liquidity difficulties.

The control and regulation of the liquidity for the Bank as a whole and by bank offices is carried out centralized by "Liquidity and Markets" division.

The level of liquid funds and the level of liquid funds for maintenance are monitored. On that basis the Bank monitors its ratio of available liquid funds to loans and other receivables.

The Bank maintains a large value of highly liquid assets as cash in hand and cash balances with the Central Bank, which guarantee Bank's ability to meet its liquidity requirements. As at 31 December 2020 and 2019, cash and cash balances with the Central Bank represent respectively 12% and 14% of the Bank's total assets.

All amounts are in BGN '000, unless explicitly stated otherwise

As an additional instrument to provide high liquidity, the Bank uses loans granted to banks. These comprise mostly of deposits in first-class international and Bulgarian banks with maturity up to 7 days. As at 31 December 2020 and 2019, loans and advances to banks represent respectively 8% and 7% of the Bank's total assets.

Government securities owned by the Bank and not pledged as collateral as at 31 December 2020 and 2019 represent respectively 9% and 13% of the Bank's total assets. By maintaining 29% (2019: 34%) of its assets in highly liquid assets, the Banks ensures the ability to settle all maturities of financial liabilities.

The gross (undiscounted) nominal cash outflow of financial liabilities of the Bank is as follows:

31 December 2020	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Deposits from banks	45	-	-	-	-	45
Deposits from customers	199,364	24,205	63,040	63,810	1,736	352,155
Lease liabilities	79	158	715	1,666	232	2,850
Other financial liabilities	23	-	-	-	-	23
Total financial liabilities	**199,511**	**24,363**	**63,755**	**65,476**	**1,968**	**355,073**

31 December 2019	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Deposits from banks	113	-	-	-	-	113
Deposits from customers	202,954	18,526	77,681	46,239	1,988	347,388
Lease liabilities	89	179	796	1,628	335	3,027
Other financial liabilities	219	-	-	-	-	219
Total financial liabilities	**203,375**	**18,705**	**78,477**	**47,867**	**2,323**	**350,747**

The financial liabilities of the Bank are mainly from attracted funds on deposits – retail and corporate. Large portion of them as at 31 December 2020 – 444 (2019: 903) are with residual term within one month. Customers often prefer to sign a deposit agreement with one month term and to renegotiate it regularly for a longer period. As a result, one-month deposits are practically a long-term and relatively permanent resource of the Bank.

No negative effects on the Bank's liquidity as a result of the COVID-10 pandemic have been identified.

29.4. Market risk

Market risk is the risk that changes in the market prices of financial assets, interest or currency rates may have an adverse effect on the Bank's financial results. Market risk arises on opened exposures in interest, currency and equity instruments, which are sensitive to general and specific market movements and affect the profitability of the Bank. Market exposure is managed by the Bank, in accordance with risk limits, set by the management.

The Bank manages its financial instruments, considering the changing market conditions. Exposure to market risk is managed in accordance with risk limits, set by the Bank's management by transactions with financial instruments or by opening a compensating position to hedge the risk.

To minimize the sources of market risk, the Bank has adopted rules for investments in financial instruments as follows:

- Foreign government securities – could be purchased only if they have a credit rating not lower than BBB/positive perspective on Standard & Poor's or an equivalent assessment of creditworthiness, and the maximum level of exposure is limited;
- Corporate bonds issued by banks – at issuer's credit rating not lower than BBB/positive perspective on Standard & Poor's or an equivalent assessment of creditworthiness, and the maximum level of exposure is limited;
- Corporate shares – limited total exposure;
- Corporate bonds – may only be purchased if they have a credit rating not lower than BBB/ positive perspective on Standard & Poor's or an equivalent assessment of creditworthiness. Otherwise, a precise analysis of quantitative and qualitative factors is performed to support the decision for their acquisition. The

maximum level of exposure is limited.

Deviations from the limits set are only allowed with the explicit permission of the Assets and Liabilities Management Committee.

Market risk management includes:
- Determination of securities and money market placements ratio. This ratio is dynamic as the ratio of investment/trading portfolio, is determined, according to the maturity structure of the Bank's attracted funds, cash inflows and outflows, liquidity needs, income level and objectives of the Bank.
- Risk/return ratio analysis.

In accordance with principles and objectives adopted, the Bank applies approaches to market risk management as follows:
- VaR analysis, Duration of financial instruments and standardized interest rate shocks analysis to identify and analyse the effect of various risk factors on the value and profitability of the portfolio, in order to determine the optimal risk/return ratio;
- The Bank analyses the risk/return ratio, and at given level of risk the instrument with higher return is selected; at given level of return, the instrument with lower risk is selected.

The Assets and Liabilities Management Committee develops alternative action plans in circumstances of increased market risk, due to sudden changes in market conditions within the limits, provided for different types of operations. The Committee monitors and suggests actions to divert from the usual limits in order to overcome such situations.

To assess the interest rate sensitivity of the commercial portfolio, the Bank uses the modified duration of the portfolio, calculated on a daily basis.

To assess the potential impact of possible extreme fluctuations in interest rates on the value of trading portfolio, the Bank analyses the effect of 100 basis points standardized interest rate shock as the price change in parallel shift of the yield curve should not exceed 5% of the capital base, calculated in the last quarter.

Pursuant to Ordinance 7 of BNB, the Bank analyses the impact of change in interest rates by 200 b.p. as an expected effect on capital. The effect should not exceed 20% of the capital base.

No additional negative effects on the Bank's liquidity as a result of the COVID-10 pandemic have been identified.

29.4.1. Interest rate risk

Interest rate risk is the probability of possible changes in the net interest income or net interest margin, due to fluctuations in the general market interest rate levels. The interest rate risk management of the Bank aims to minimize the risk of decrease in the net interest income as a result of changes in interest rate levels.

The Bank uses the GAP analysis method (gap analysis) to measure and assess the interest rate risk, allocating the interest-bearing assets and liabilities in time ranges, depending on the moments of their revaluation (for instruments with floating interest rate) and maturity (for instruments with fixed interest rate). Using this method the management of the Bank identifies the sensitivity of the expected income and expenses to changes in interest rates. The Gap analysis method aims to determine the exposure of the Bank, as a total amount and by separate types of financial assets and liabilities, in relation to expected interest rate fluctuations and their effect on the net interest income. It assists the management of assets and liabilities and is also an instrument for securing sufficient and stable net interest profitability. The management assesses the exposure of the Bank's portfolio to interest rate risk and its sensitivity to this type of risk as moderate in view of the volumes and structure of the operations.

In interest rate risk management, the Bank applies policy and procedures according to the nature and complexity of its operations. By managing the interest rate risk, the Bank aims at stable spread between the interest income and expense to provide an adequate profitability and maximum value at acceptable level of risk.

The interest rate risk management of the Bank is based on the assessment of the amount and sensitivity of the exposure to fluctuations in the market interest rates and the probability for occurrence of such fluctuations. The Bank has established a system for measurement of interest rate risk, which covers all sources of interest rate risk and assesses the effect of the fluctuations in interest rates.

All amounts are in BGN '000, unless explicitly stated otherwise

Interest rates for assets and liabilities denominated in BGN are usually determined on the basis of the movement of the basic interest rate set by the Central Bank (BNB). Interest rates for assets and liabilities denominated in EUR are based on the quoted rates of the European Central Bank.

In cases of assets and liabilities with floating interest rates, the Bank is exposed to risk of fluctuations in the reference rates, which are used to estimate the interest rates.

Depending on the specific conditions, the Bank uses the following approaches to interest rate risk management, applying the gap analysis:

- Balance – providing parity between the sensitivity of the interest-bearing assets and liabilities.
- Restructuring of the portfolios of assets and liabilities when cyclical fluctuations in interest rates occur.
- Determining the level of the interest rates, and their type (fixed or floating) on the assets and liabilities of the Bank depending on the trends for development on the domestic and international financial markets.

In its operations, the Bank aims to achieve a positive gap in relation to the maturity of the assets and liabilities and a balanced position regarding the sensitivity of the interest-bearing assets and liabilities.

The interest-bearing assets and liabilities of the Bank, categorized by date of agreed change of interest rates by periods of interest rate change are as follows:

31 December 2020	**up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**over 5 years**	**Total**
Interest-bearing assets						
Loans and advances to banks	31,190	-	-	-	-	31,190
Loans and advances to customers	195,887	5,517	1,819	2,696	19,278	225,197
Debt instruments at FVOCI	-	13,175	11,263	14,315	-	38,753
Total interest-bearing assets	**227,077**	**18,692**	**13,082**	**17,011**	**19,278**	**295,140**
Interest-bearing liabilities						
Deposits from banks	45	-	-	-	-	45
Deposits from customers	199,362	24,193	62,872	62,992	1,644	351,063
Lease liabilities	79	158	715	1,666	232	2,850
Total interest-bearing liabilities	**199,486**	**24,351**	**63,587**	**64,658**	**1,876**	**353,958**
Gap between interest-bearing assets and liabilities, net	**27,591**	**(5,659)**	**(50,505)**	**(47,647)**	**17,402**	**(58,818)**

All amounts are in BGN '000, unless explicitly stated otherwise

31 December 2019	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Interest-bearing assets						
Loans and advances to banks	26,163	-	-	-	-	26,163
Loans and advances to customers	173,553	119	2,450	9,050	22,857	208,029
Debt instruments at FVOCI	8,439	5,047	-	13,455	-	26,941
Total interest-bearing assets	**208,155**	**5,166**	**2,450**	**22,505**	**22,857**	**261,133**
Interest-bearing liabilities						
Deposits from banks	113	-	-	-	-	113
Deposits from customers	202,950	18,508	77,314	45,655	1,849	346,276
Lease liabilities	89	179	796	1,628	335	3,027
Total interest-bearing liabilities	**203,152**	**18,687**	**78,110**	**47,283**	**2,184**	**349,416**
Gap between interest-bearing assets and liabilities, net	**5,003**	**(13,521)**	**(75,660)**	**(24,778)**	**20,673**	**(88,283)**

The average effective interest rates on the Bank's interest-bearing financial instruments are as follows:

	31.12.2020	31.12.2019
Interest-bearing assets		
Loans and advances to banks	0.08	0.52
Financial assets at FVPL	0.52	1.73
Loans and advances to customers	4.33	4.55
Debt instruments at FVOCI	1.37	2.16
Interest-bearing liabilities		
Deposits from banks	-	-
Deposits from customers	0.28	0.37

29.4.2. Currency risk

Currency risk is the possibility the Bank to realize losses due to changes in foreign currency exchange rates.

In the Republic of Bulgaria the exchange rate of the BGN is fixed to the EUR by the Currency Board Act. The open positions of the Bank in EUR bear no currency risk for the Bank.

The currency risk is the risk of negative effect of the fluctuations of prevailing exchange rates on the financial position and the cash flows of the Bank. The main part of the assets and liabilities of the Bank are denominated in EUR and BGN. The Bank aims not to hold open positions in currencies other than EUR.

All amounts are in BGN '000, unless explicitly stated otherwise

The foreign currency structure of financial assets and liabilities by carrying amount is as follows:

31 December 2020	BGN	EUR	USD	JPY	Other	Total
Assets						
Cash and balances with the Central Bank	37,379	9,725	1,880	268	209	49,461
Loans and advances to banks	325	11,124	15,323	3,269	1,149	31,190
Financial assets at FVPL	3,153	-	6,376	-	-	9,529
Debt instruments at FVOCI	16,982	12,211	9,560	-	-	38,753
Equity instruments at FVOCI	293	-	-	-	-	293
Loans and advances to customers	165,662	59,381	154	-	-	225,197
Total assets	**223,794**	**92,441**	**33,293**	**3,537**	**1,358**	**354,423**
Liabilities						
Deposits from banks	-	33	12	-	-	45
Deposits from customers	176,167	136,756	33,263	3,539	1,338	351,063
Lease liabilities	2,850	-	-	-	-	2,850
Other financial liabilities	1	3	18	-	1	23
Total liabilities	**179,018**	**136,792**	**33,293**	**3,539**	**1,339**	**353,981**
Net position	**44,776**	**(44,351)**	**-**	**(2)**	**19**	**442**

31 December 2019	BGN	EUR	USD	JPY	Other	Total
Assets						
Cash and balances with the Central Bank	50,129	1,927	719	230	188	53,193
Loans and advances to banks	389	18,925	2,723	3,403	723	26,163
Financial assets at FVPL	161	6,000	31,273	-	-	37,434
Debt instruments at FVOCI	14,288	12,653	-	-	-	26,941
Equity instruments at FVOCI	293	-	-	-	-	293
Loans and advances to customers	146,921	61,108	-	-	-	208,029
Total assets	**212,181**	**100,613**	**34,715**	**3,633**	**911**	**352,053**
Liabilities						
Deposits from banks	-	67	46	-	-	113
Deposits from customers	174,630	132,425	34,679	3,632	910	346,276
Lease liabilities	3,027	-	-	-	-	3,027
Other financial liabilities	-	218	1	-	-	219
Total liabilities	**177,657**	**132,710**	**34,726**	**3,632**	**910**	**349,635**
Net position	**34,524**	**(32,097)**	**(11)**	**1**	**1**	**2,418**

29.4.3. Price risk

Price risk is related to the fluctuations in market prices of financial assets and liabilities, which can cause losses for the Bank. The main risk for the Bank is the decrease of market prices of the financial instruments held for trading, which can lead to decrease of the profit for the period. As described in Notes 6 and 7, the main part of the investments of the Bank are in Bulgarian government securities, which do not bear significant price risk.

29.4.4. Sensitivity to market risk

In accordance with the adopted objectives and principals, the Bank applies: VaR (Value-at-risk) analysis, Duration analysis and Standardized interest rate shocks to identify and analyse the effect of different risk factors on the value and the profitability of the portfolio, and thus aims to find the optimal risk to return ratio.

All amounts are in BGN '000, unless explicitly stated otherwise

As at 31 December 2020, the Bank performed an interest rate sensitivity analysis based on the assumption of parallel shift in the interest curve applied on the interest gap. The expected effect on 200 b.p. shift is +/- BGN 444 thousand (2019: +/- BGN 903 thousand).

To assess the effect of potentially possible extreme fluctuations of interest rates, the Bank analyses the effect of several standardized interest rate shocks on trading portfolio. The price fluctuation in the parallel shift of the yield curve by 100 basis points should not exceed 5% of the capital base calculated in the last quarter. As at 31 December 2020, the ratio amounts to 0.29% of the capital base (2019: 0.32%).

29.5. Fair value

Fair value of financial instruments
The Bank determines the fair value of its financial instruments based on the available market information or by using appropriate valuation techniques when no such information is available. Information about the carrying amounts and fair values of financial assets and liabilities is presented in Note 29.1.

The tables below summarise information about the financial assets carried at fair value in the statement of financial position:

31 December 2020	**Carrying amount**	**Level 1 – quoted market price**	**Level 2 – valuation technique – observable market data**	**Level 3 – valuation technique 0 unobservable market data**	**Fair value unavailable**
Assets measured at fair value					
Financial assets at FVPL	9,529	158	9,371	-	-
Debt instruments at FVOCI	38,753	-	38,753	-	-
Equity instruments at FVOCI	293	-	-	293	-
Total	**48,575**	**158**	**48,124**	**293**	**-**

31 December 2019	**Carrying amount**	**Level 1 – quoted market price**	**Level 2 – valuation technique – observable market data**	**Level 3 – valuation technique 0 unobservable market data**	**Fair value unavailable**
Assets measured at fair value					
Financial assets at FVPL	37,434	161	37,273	-	-
Debt instruments at FVOCI	26,941	-	26,941	-	-
Equity instruments at FVOCI	293	-	-	293	-
Total	**64,668**	**161**	**64,214**	**293**	**-**

The tables below contain information on determining the fair value of financial assets and liabilities which are not carried at fair value in the statement of financial position:

All amounts are in BGN '000, unless explicitly stated otherwise

31 December 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances with the Central Bank	10,328	39,133	-	49,461
Loans and advances to banks	-	31,190	-	31,190
Loans and advances to customers	-	-	228,622	228,622
Total	**10,328**	**70,323**	**228,622**	**309,273**
Financial liabilities				
Deposits from banks	-	45	-	45
Deposits from customers	-	351,260	-	351,260
Lease liabilities	-	-	2,850	2,850
Other financial liabilities	-	-	23	23
Total	**-**	**351,305**	**2,873**	**354,178**

31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances with the Central Bank	9,570	43,623	-	53,193
Loans and advances to banks	-	26,163	-	26,163
Loans and advances to customers	-	-	211,226	211,226
Total	**9,570**	**69,786**	**211,226**	**290,582**
Financial liabilities				
Deposits from banks	-	113	-	113
Deposits from customers	-	346,618	-	346,618
Lease liabilities	-	-	3,027	346,618
Other financial liabilities	-	-	219	219
Total	**-**	**346,731**	**3,246**	**693,568**

The fair value of loans and advances to customers with a floating interest rate is close to their carrying amount. The fair value of loans with fixed interest rate is determined based on the Bank's current interest rates.

Fair value of non-financial assets
The tables below provide information on the main valuation methods and inputs used in determining the fair value of investment property (Note 11), assets acquired from non-performing loans (Note 12) and non-current assets held for sale (Note 9).

All amounts are in BGN '000, unless explicitly stated otherwise

31 December 2020		Market comparables method – bid prices for sale used (EUR/square meter)	Income method – bid prices for rental used (EUR/square meter)
Type of investment property			-
holiday	8,870	286-580	
retail	4,301	177-1569	2-12
regulated landed property	158	35-36	-
industrial	2,147	279-400	2-3
Total	**15,476**		
Non-current assets held for sale			
holiday	2,605	150-400	-
Total	**2,605**		
Assets acquired from unserviced loans			
holiday	2,355	164-626	-
retail	800	211-487	-
regulated landed property/landed property	986	5-68	-
industrial	14,027	120-1000	1-7
residential	542	220-1294	-
	18,710		

31 December 2019		Market comparables method – bid prices for sale used (EUR/square meter)	Income method – bid prices for rental used (EUR/square meter)
Type of investment property			
holiday	6,145	358-489	-
retail	4,301	257-3343	4-13
regulated landed property	158	25-30	-
	2,147	266-398	4
Total	**12,751**		
Non-current assets held for sale			
holiday	2,674	150-370	-
Total	**2,674**		
Assets acquired from unserviced loans			
holiday	2,354	189-620	-
retail	916	318-732	-
regulated landed property/landed property	828	5-68	-
industrial	14,080	75-900	-
residential	1,353	62-1409	-
	19,531		

The Bank monitors and analyses the real estate market on an ongoing basis, including through the prism of COVID-19. In 2020, no significant changes were found in the levels of market prices of Bank-owned properties by both external appraisers and internal appraisal experts.

30. OTHER REGULATORY DISCLOSURES

According to the requirements of Art. 70, paragraph 6 of the Credit Institutions Act, banks are obliged to disclose certain quantitative and qualitative data related to key financial and other parameters separately for the Republic of Bulgaria to other countries - EU Member States and third countries in which the Bank has subsidiaries or has established branches.

As disclosed in Note 1, Tokuda Bank operates under a banking license granted by BNB, under which it may accept deposits in local and foreign currency, extend loans in local and foreign currency, open and maintain nostro accounts in foreign currency abroad, conduct transactions with securities, foreign currency, and perform other banking operations and transactions permitted by the Credit Institutions Act.

All amounts are in BGN '000, unless explicitly stated otherwise

The Bank has no subsidiaries and branches registered outside the Republic of Bulgaria.

The summarised quantitative indicators related to mandatory disclosures required by the Credit Institutions Act are as follows:

	2020	**2019**
Total operating income	13,543	13,764
Operating profit/(loss) before tax	(207)	1,089
Tax expense	56	64
Return on assets (%)	-0.04%	0.29%
Equivalent number of full-time employees as at 31 December	219	223
State subsidies received	-	-

Return on assets is calculated based on the average monthly values of the assets.

The Bank provides services as an investment intermediary under the provisions of the Public Offering of Securities Act (POSA). As investment intermediary the Bank must meet certain requirements to protect the interests of customers under the Markets and Financial Instruments Act (MFIA) and Ordinance 38 issued by the Financial Supervision Commission (FSC). The Bank has established and applies an organization, rules and internal control procedures related to the conclusion and execution of contracts with customers, the information necessary to be collected from clients, record keeping and custody of clients' assets in accordance with Ordinance 38, Art. 28-31.

31. CAPITAL MANAGEMENT

The Bank is subject to regulations in relation to meeting the requirements for capital adequacy in accordance with Directive 2013/36/EU on the access to the activity of credit institutions, Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms (package CRD IV) and the Bulgarian legislation. In Bulgaria the authorized share capital of a bank shall not be less than BGN 10 million and there is an additional requirement that at any time the equity (the capital base) of the Bank should not fall below the required minimum.

The minimum levels of capital adequacy for banks in Bulgaria that institutions need to comply with are, as follows: common equity Tier 1 capital ratio 4.5%, Tier 1 capital ratio 6%, and total capital adequacy ratio 8%.

The Bulgarian National Bank sets in Ordinance 8 additional capital buffers that banks should maintain, above the minimum capital requirements. As at 31 December 2020, these are:
- protective capital buffer, equal to 2.5% of the Bank's total risk exposure;
- anti-cyclical capital buffer – 0.5% of the Bank's total risk exposure;
- systematic risk buffer – 3% of the Bank's total risk exposure.

The Bank monitors and analyses on monthly basis its capital position and prepares quarterly reports for supervisory purposes, which are submitted to the BNB in compliance with legal requirements. The capital management policy aims to provide an adequate coverage of risks arising in the normal course of banking activities, as well as risks of unforeseen circumstances. The main priority in the management of capital is compliance with the regulatory requirements for capital adequacy and maintenance of sufficient capital, which covers risks assumed and provides sufficient capital buffer for unforeseen events.

All amounts are in BGN '000, unless explicitly stated otherwise

The Bank maintains capital adequacy above the required regulatory ratios. The total capital ratio as at 31 December 2020 is 18.63% (31 December 2019: 18.50%).
Additional information is presented in the table below:

	31.12.2020	**31.12.2019**
Equity	41,986	41,562
Common equity Tier 1 capital	41,986	41,562
Capital requirements		
Total risk-weighted assets for credit risk, credit risk from the counterpart and risk of dilution and free supplies	198,019	195,553
Total exposures to position, currency and commodity risk	1,350	2,725
Total risk exposures to operational risk	25,988	26,400
Total risk exposures	**225,357**	**224,678**
Capital ratios		
Common equity Tier 1 capital ratio	18.63%	18.50%
Excess (+)/Shortage (-) of common equity Tier 1 capital	31,845	31,451
Tier 1 capital ratio	18.63%	18.50%
Excess (+)/Shortage (-) of Tier 1 capital	28,465	28,081
Total capital ratio	18.63%	18.50%
Excess (+)/Shortage (-) of total capital	23,957	23,588

32. EVENTS AFTER THE REPORTING PERIOD

No other events have occurred after the date of the financial statements that would result in adjustments or additional disclosures therein.