**ALLIANZ BANK BULGARIA AD**
**ANNUAL ACTIVITY REPORT**
**CORPORATE MANAGEMENT DECLARATION**
**INDEPENDENT AUDITORS’ REPORT**
**ANNUAL FINANCIAL STATEMENT**
**for the year ended, December 31, 2021**

**CONTENTS**

| | **Page.** |
|---|---|
| ANNUAL ACTIVITY REPORT | 1-22 |
| CORPORATE MANAGEMENT DECLARATION | 23-30 |
| Profit or loss account | 31 |
| Statement of comprehensive income | 32 |
| Statement of financial position | 33 |
| Statement of cash flows | 34-35 |
| Statement of changes in equity | 36 |
| Appendixes to the annual financial statement | 37-164 |
| INDEPENDENT AUDITORS' REPORT | |

Dear Shareholders,

Welcome to the Annual General Assembly of the Shareholders of Allianz Bank Bulgaria AD.

During the past 2021, Allianz Bank Bulgaria AD continued to function as a loyal and honest partner of its clients and partners on the local and international markets.

Despite the challenges posed by the COVID-19 pandemic and the serious competition, the bank has achieved good financial performance, driven by its effective management and the excellent work of its employees.

As at 31.12.2021, the assets of the Bank amount to a total of BGN 3,622,872 thousand, and the profit after tax is for the amount for BGN 17,326 thousand.

**Attracted funds**

As of the end of 2021, customer deposits with the bank increased by 10.82 % to reach BGN 3,306,667 thousand. (2020: BGN 2,983,881 thousand).

Sources of the bank's funding are personal deposits - BGN 1,792,634 thousand and corporate deposits - BGN 1,514,048 thousand

As of the end of 2021, Allianz Bank Bulgaria serves 23,833 corporate accounts and 178,267 personal accounts.

**Capital**

The main capital of Allianz Bank Bulgaria AD as at 31.12.2021 and 31.12.2020 was BGN 69,000 thousand distributed in 69,000 thousand registered voting shares with a nominal value of BGN 1 each.

As at 31.12.2021, the Bank's equity is BGN 257,497 thousand. The total risk component of the bank's balance sheet and off-balance sheet assets is 1,282,980 thousand. The capital base of the Bank, according to the new capital framework of the ECB / Basel 3 / with no annual profit for the end of 2021 is BGN 229,839 thousand.

The Bank prepares quarterly and annual supervisory reports, as well and monthly ones for the Management in accordance with the requirements of Ordinance No 8 of the Bulgarian National Bank (BNB) of 24 April 2014 on Bank Capital Buffers. The Bank applies a standardized approach with regard to credit and market risk and a basic indicator approach for operating risk.

According to art. 92 of Regulation 575 of the European parliament and of the Council of Wednesday, June 26, 2013, minimum requirements for the ratios of capital adequacy of Tier 1 capital and of Total capital adequacy are respectively no less than 6% and no less than 8%. According to the Bank's Supervisory Reports prepared for BNB purposes in accordance with Regulation 575 of the European Parliament and of the Council of 31 December 2021, the Bank complies with capital adequacy requirements.

**Capital (continued)**

At the end of 2021 Allianz Bank Bulgaria AD has complied with the recommendations of the BNB / decisions of the BNB Governing Council dated 20.12.2019 / and No. 160 dated 24.04.2019 for capital stability - the total capital adequacy should not be less of 14.25%, formed on the basis of:

- Minimum total capital ratio of 8% for risk-weighted assets in accordance with Article 92 (1) of Regulation 575/2013 and additional common equity requirement of 0.25% for risk-weighted assets, or 8.25% total capital requirement under the Supervisory Review and Evaluation Process/ SREP; EBA/GL/2014/13/.
- Systemic risk buffer equal to 3% of the amount of risk-weighted assets of the bank.
- Safeguard capital buffer, equal to 2.5% of the amount of risk-weighted assets of the bank.
- Bulgaria at the end of 2021 - 0.5%, according to a BNB decision in connection with COVID-19.

The capital adequacy ratio is 17.91% / with a required minimum of 14.25% / and the capital adequacy ratio of Tier 1 capital is 17.91%. As at 31.12.2021, the Bank does not recognize Tier 2 capital in in its capital base.

**Assets**

The Bank's assets at the end of 2021 amounted to BGN 3,622,872 thousand, increasing by 10.43% for one year and accounting for 2.68% of the banking system assets as of 31.12.2021. The Bank's asset growth for the banking system in 2021 was 9.20%.

The asset structure is maintained and the increase in the amount of assets is mainly from securities, respectively 78% of the portfolio of securities measured at fair value through other comprehensive income and 35% of the portfolio of securities measured at amortized cost. The most significant decrease is reported in Cash and cash equivalents, which decreased by 4.59% in one year, mainly from the balances with the Central Bank.

***The loans and advances to customers as of December 31 may be presented as follows:***

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Loans and advances to clients at amortized cost | 1,524,740 | 1,310,228 |
| Factoring receivables | 91,427 | 30,567 |
| Claims from a cash pool | 9,405 | 205,473 |
| Finance lease receivables | 94,482 | 83,369 |
| Minus losses from impairment | (97,174) | (81,971) |
| **Total loans and advances to clients** | **1,622,880** | **1,547,666** |

Under the new Basel III financial reporting framework (FINREP), loans over 90 days in arrears amounted to BGN 56,994 (2020: BGN 61,864 thousand) and represent 3.31% (2020: 3.80%) of the Bank's loan portfolio, with the analogous indicator for the entire banking system as at 31.12.2021 is 6.03% and 5.36% for the 2nd group of banks.

**Net financial income**

In the past 2021, the Bank retained the proportions in the structure of net financial income, with net interest income and net Fees and commissions income remaining the main factor in profit formation.

The highest relative share of interest income is interest income on loans and advances to clients - BGN 38,780 thousand, which represents 67.25% of the total interest income, compared to 68.63% in the previous year. Interest income from investments is BGN 12,376 thousand and has a relative share of 21.05% (against 22.8% at the end of 2020).

The net income from fees and commissions amounts to BGN 16,441 thousand, marking an increase compared to the level of the previous 2020 of BGN 13,677 thousand. Gross income from fees and commissions on cash transactions and money transfers increased by 12.56%. The income realized from fees and commissions on guarantees and letters of credit, loans, factoring and cards also increased by 27.82%,

Net income from forex trading for 2021 amounts to BGN 2,298 thousand, registering an remains unchanged as the end of the previous year.

**Administrative expenses**

The Bank's operating expenses for 2021 amount to 41,894 (2020: BGN 43,574 thousand), noting a decrease compared to 2020 by almost 4%. The expenses for staff salaries and social security increased by 9.33% compared to the end of 2020. In 2021 the Bank did not make an annual contribution to the Bank Restructuring Fund in connection with the decision of The Governing Council of the BNB, according to which the liabilities of credit institutions for preliminary contributions to the Single Restructuring Fund for 2021 will be deducted from the funds available in the sub-fund under Art. 134, para. 1, item 2 of RRCIIFA. Paid in 2020 in the amount of BGN 6,167 thousand. The volume of funds intended to cover the contribution to the Personal Deposit Insurance Fund was decreased by 3.95% and amounts to BGN 3,548 thousand. (2020: BGN 3,694 thousand)

Operating expenses for hired services (including audit) and materials amount to BGN 8,240 thousand, an increase of 16% compared to 2020.

Management, marketing and other expenses increased by 19.48% to BGN 3,146 thousand.

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Expenses for inventory | (783) | (430) |
| Expenses for hired services, incl. audit | (7,457) | (6,652) |
| Management, marketing and other costs | (3,146) | (2,633) |
| Rental costs | (501) | (124) |
| Expenses for depreciation | (2,095) | (1,870) |
| Expenses for depreciation of right-of-use assets | (3,066) | (3,449) |
| Staff expenses | (20,152) | (18,432) |
| Bank restructuring costs | - | (6,167) |
| Expenses for deposit insurance | (3,548) | (3,694) |
| Other costs | (1,146) | (123) |
| **Total administrative costs** | **(41,894)** | **(43,574)** |

The Cost / Income Ratio (CIR) at the end of 2021 was 58.04% compared to 60.65% in 2020. The 2022 plan is CIR of 46.76%.

**Information on services provided by independent auditors**

The amounts accrued in 2021 for services provided by registered auditors for statutory independent financial audit are as follows: for PricewaterhouseCoopers Audit OOD - BGN 144 thousand excluding VAT and for HLB Bulgaria OOD - BGN 16 thousand excluding VAT.

The amounts accrued in 2020 for services provided by registered auditors for statutory independent financial audit are as follows: for PricewaterhouseCoopers Audit OOD - BGN 145 thousand excluding VAT and for HLB Bulgaria OOD - BGN 16 thousand excluding VAT.

For the audited period and on the date of this report PricewaterhouseCoopers Audit OOD provided, is in the process of providing or negotiating with the Bank, the following services:

- Joint mandatory statutory financial audit of the Bank's financial statements prepared for the year ended 31 December 2021, in accordance with IFRS adopted by the EU;

- Commitment to perform procedures as of 31 December 2021 in connection with the fulfillment of the requirements of Art. 76, para. 7, item 1 of the Credit Institutions Act and Art. 5 of Ordinance 14 of the Bulgarian National Bank (BNB) of February 4, 2010 regarding the internal control systems of Allianz Bank Bulgaria AD.

For the audited period and at the date of this report, HLB Bulgaria Ltd provided or is in the process of providing the following services

- Joint mandatory statutory financial audit of the Bank's financial statements prepared for the year ended 31 December 2021, in accordance with IFRS adopted by the EU;

- Commitment to perform procedures as of 31 December 2021 by the joint auditors in connection with the fulfillment of the requirements of Art. 76, para. 7, item 1 of the Credit Institutions Act and Art. 5 of Ordinance 14 of the Bulgarian National Bank (BNB) of February 4, 2010 regarding the internal control systems of Allianz Bank Bulgaria AD.

**Financial targets for 2022**

The financial goals that the Bank strives to achieve in 2022 are in line with the macroeconomic framework for the country's development and the expected dynamics in the market environment, based on the Bank's plan approved by the Supervisory Board and the Planned Dialogue with Allianz CEE.

The Bank has set ambitious goals for the growth of profit-yielding assets, as their planned amount at the end of the year amounts to BGN 2,799 million with a growth of 9.5%. This volume of business should generate a profit after tax of BGN 33 million, which would ensure a return on equity (ROE) of 11.7%.

The strategic plan of Allianz Bank Bulgaria AD encompasses a three-year period, and it is finally approved by the Board of directors of Allianz CEE, a subsidiary of Allianz SE, managing the holding's business (Allianz Group) in the countries in Central and Eastern Europe.

The Bank's strategic goals and the planned values of major capital adequacy, liquidity and profitability indicators reflect the shareholders' and the management's vision for the Bank's development in a stable economic environment.

**Financial targets for 2022 (continued)**

The Bank's business strategy in 2022 is based on three main pillars of development:

- Sustainable growth;
- Digitization;
- Effective management information system.

In fulfilling the set financial goals in 2022, the Bank will be focused on the implementing the following strategic initiatives:

- Changing the traditional business model for production and distribution of bank products and services through reorganizing the branch network structure, changing the balance between employees engaged in operations and sales and creating a new universal role in the front office focused on sales and customer service.

- Significant growth in the number of active clients and attracting new ones from the client portfolio of the insurance companies and the pension fund, which will result in an increase in the income from fees and commissions.

- Retail business - increasing the market presence of the Bank in the retail banking sector and expanding the product range with loans to the mass customer, characterized by fast granting procedures and relatively higher interest rates, growth in mortgage and consumer lending with rates above the market average.

- Corporate banking - focus on attracting international, multinational and local export-oriented companies in order to increase revenues from trade financing and factoring. Growth in the volume of bank loans intended for high-rated corporate clients, which will ensure lower capital consumption.

Priority implementation of several IT projects aiming to provide digital solutions on:

- Optimization of routine activities related to the internal process of attracting and lending to retail customers, as well as implementation of a new digital platform DiGiWave and WeBank in support of online services;

- Reducing the deadlines for granting and disbursing loans. Elimination of duplicate operational activities in order to facilitate and streamline processing. Introduction of quick decisions for standardized and low-risk transactions. Reducing the number of application forms and the full set of documents accompanying the process. Implementing effective sales control;

- Full digitalization of the lending process: Paperless workflow, interaction between all participants in a digital environment - front office, collateral assessors, legal function, risk; automation of document generation; built-in risk control and cross-control mechanisms for new transactions;

- A "mobile factoring" solution to provide a link between all participants in the factoring transaction, as well as a digital, customer-friendly journey throughout the process.

- Decommissioning of toxic software.

Integrated marketing communication - direct marketing campaigns targeted at existing customers in order to cross-sell and retain existing customers. Effective marketing activities to attract new customers;

**Financial targets for 2022 (continued)**

During this year the Bank will keep working on the “MonoCARD” concept, which involves cooperation with MasterCard, a single payment scheme combining all the benefits of the exclusive partnership agreement with opportunities for product development and subsidizing various initiatives, full marketing and consulting support, bonuses for the implementation of the business volumes undertaken and optimization of operating expenses.

The Bank's ambition is to be among the top three banks in Bulgaria in terms of efficiency and profitability, measured by the CIR and ROE indicators, by the end of this year.

**New products and services**

In order to consolidate the achieved market positions in 2021, Allianz Bank Bulgaria continued to maintain and expand its product range in Retail Banking. In the first half of the year, products aimed at customers in the microbusiness segment were developed and launched.

In 2021, the price of borrowed funds in the banking system remained low, as a result of which interest rates on loans for the same segment maintained their downward trend.

Over the past year, competition in lending has increased. In order to ensure the competitiveness of mortgages and consumer loans, their terms have been revised several times. At the beginning of the year, the approach to offering life insurance together with credit products was reconsidered - from life insurance with limited coverage at the expense of the Bank, to offering individual life insurance with more extended coverage. The insurance is concluded at the client’s request and is paid by them.

In the Corporate Banking business line, the Bank’s priority remains the development of various corporate financial products to meet the growing needs of companies for working capital and investment funding, as well as the need to use transaction services. The focus in 2021 was on active sales and maintaining the purity of the corporate loan portfolio, as well as on the sale of transaction services.

In view of the ongoing COVID-19 pandemic and its aftermath, efforts were made to maintain the measures to support and assist companies using credit services by including them in the updated state aid scheme under the Recovery Program of the Bulgarian Reconstruction and Development Bank EAD. A guarantee agreement was also signed with the European Investment Fund to support companies in overcoming the difficulties caused by the COVID-19 crisis.

In 2021 the bank started the process of implementing a new software system in corporate banking - Credit Quest. It is a complete solution in the process of approving corporate loans, portfolio management, analysis of financial statements and rating generation, generation of various types of reports. In 2021 the bank implemented the introduction of financial statements and the approval of the financial rating of its borrowers in Credit Quest (representing the first phase in the digitalization process of the lending process in corporate banking). We have been working to increase income from fees and commissions and create new lending opportunities and drawing in transactional business. Efforts were focused on optimizing the tariff positions and prices for interbank transfers in foreign currency in the EEA, credit services, letters of credit and bank guarantees, safety deposit boxes.

**New products and services (continued)**

In 2021, the banking system kept the trend of maintaining high liquidity and insufficient return on borrowed funds in the form of credit transactions, given the low prices of loans. This necessitated the introduction of negative interest rates on current accounts, as well as the introduction of a new fee for safekeeping of funds, which is charged and collected at 31.12. of each calendar year.

The Bank significantly activated the factoring services offered. In the turbulent period of economic recovery post-COVID and political instability, factoring proved to be a very convenient and sought-after financial instrument for financing. This is a product that combines the provision of both working capital and security for their administration and collection. In the past period Allianz Bank Bulgaria registered over 100% growth in turnover and incomes from this activity. This service is one of the main priorities of the Bank, and the focus is the introduction of new digital solutions for factoring customers.

In 2021, the trend towards increasing the share of online banking services compared to in-office services continued.

In 2021, we implemented biometric authentication through the SmartID application for card payments on the Internet. We started offering our customers new card products with the MasterCard brand. We put into operation ATMs with deposit functionality. The migration of virtual merchants to the new platform of our authorization center - Borika was completed successfully, which provides new and improved services for our merchants and meets the latest requirements of card organizations. The bank implemented several new functionalities for its cardholders.

**Sales network**

In 2021, the process of optimization of the branch network of Allianz Bank Bulgaria AD continued in the previous year.

Continuous monitoring and analysis of efficiency, workload and, last but not least, the potential for development of the sales points of the Bank are carried out. Based on the results of this process BC Krasno selo was closed and BC Park Lane was opened.

As at 31 December 2021, the Bank has 60 structural units, including headquarters, 56 business centers, 3 small business centers located in 36 cities and towns within the country.

**Information Technology**

In the past 2021, the Bank continued to develop the long-term project for digital transformation successfully launched in 2019, which is currently one of the main challenges in the banking sector. This project covers bringing the Bank in line with new technologies and new business models for more effective customer engagement through all channels. Within the framework of this project in 2021 several more applications were developed and implemented, helping to optimize the business processes in the Bank.

Numerous refinements related to changes in the main banking system and its satellite applications have been implemented. The ERP and Reporting systems were migrated to new and modern IT solutions.

In 2021, the Bank relocated its headquarters to a new building. As part of this relocation, communication and IT equipment at workplaces were provided as required by the Allianz Group.

**Information technology (continued)**

Another significant change during the year was the relocation of the Bank's main data center to new premises, equipped according to the latest global practices and requirements, which ensures continuity of operations of the Bank's infrastructural equipment.

The main priority in 2021 was the elimination of the Bank's so-called toxic information assets - applications, components and infrastructure elements that are no longer maintained by the respective vendors and manufacturers. A very ambitious plan has been set up, according to which all toxic assets should be eliminated within a few months. At the end of October 2021, the Bank reported the complete elimination of its toxic information assets.

In the next year, we will continue to develop the information technology embedded in the Bank in order to respond promptly to any changes in the regulatory and regulatory framework in the country, business challenges and customer satisfaction through a secure, reliable and highly productive information system that meets world standards area. The migration of the SWIFT infrastructure to the SWIFT service bureau of Borika is forthcoming, which will lead to the fulfillment of the high security requirements, as well as to ensuring the continuity of the payment process. The other important task is the transition to the new payment system in Bulgaria Bisera 6+, allowing the processing of so-called batch payments, as well as laying the foundations for launching instant payments in the Bank in the near future.

Our focus will be primarily on digitalization of processes and services in the bank. This will make it easier for our customers both in terms of transactions and in the customer-bank relationship as a whole.

**Staff**

At the end of 2021 Allianz Bank Bulgaria AD employs 590 employees on an employment contract (2020: - 594 employees).

A key moment in the past year was the restructuring of the bank's branch network, aiming at a sales-oriented structure that meets the business needs. During the year internal trainings were conducted by managers at the Allianz Bank Bulgaria Headquarters, as well as trainings by external consultants and training companies, focused on management skills and leadership. In the environment of the COVID-19 pandemic, the bank focused on conducting the trainings mainly online and provided an opportunity for home office work for the Headquarters employees. A program to support the well-being and mental health of colleagues was also provided. Round-the-clock psychological counseling with professional psychologists is provided in order to support the resolution of a wide range of issues that negatively affect both work and personal life.

The employees of Allianz Bank Bulgaria AD play a key role in the development of the Bank. The basis for quality customer service and customer satisfaction. The Bank pursues a policy in support of work-life balance, aiming to create a productive and efficient work environment. The desire of employees to develop and improve qualifications and skills is valued and supported. In the past 2021, trainings for leadership skills, sales skills and a number of others related to improving the professional skills of employees and their knowledge were organized.

In order to successfully achieve its business strategy and goals, the Bank depends on retaining its best employees and keeping them motivated and committed. Its approach is based on talent management and evaluation, promoting inclusion and employee rights and promoting well-being and engagement - supported by strategic HR frameworks, principles and tools based on the principles of excellent customer service, joint leadership, entrepreneurship and trust.

**Staff (continued)**

The bank values the engagement of its employees with high priority and strives to build a workforce that is highly customer-oriented. It uses specific indices that measure employee engagement (Employee Engagement Index - EEI), the development of corporate culture in which people and work matter (Inclusive Meritocracy Index - IMIX), and work environment satisfaction (Work Well Index - WWI). ). This is done in order to analyze the main causes of work-related stress, identify effective solutions and create changes in the work environment to enable employees to reach their full potential.

EEI includes 4 indicators measuring employee satisfaction and engagement in the company. IMIX includes 10 indicators covering the areas of attitude towards customers, leadership and corporate culture. WWI includes 13 indicators covering the areas of work environment, job performance and career development. All three indices show a significant increase compared to the previous 2020, with the improvement in the results varying between 4 and 8 points. The results show a development of not only employee engagement and corporate culture, but also an improved work-life balance.

The Bank supports social inclusion through diversity and well-being programs by supporting groups such as Women in Governance and People with Disabilities.

Allianz Bank Bulgaria has joined the 27 countries of the Allianz global family with EDGE certification / Economic Distribution for Gender Equality /. We are committed to not offering different pay based on gender for the same or similar positions. Our leadership programs focus on gender equality and provide equal career opportunities.

The results of the employee satisfaction survey for 2020 showed an increase in their engagement, development of corporate culture, work-life balance indices.

**Credit, market, liquidity, and operating risk**

The Bank manages the credit risk through rules and procedures related to the characteristics of the credit transactions concluded by it, the order, terms and manner of their research, analysis, evaluation, authorization, coordination, management and provision approved by the Bank's Management Board by which actively manages its credit risk.

As required by IFRS 9, the Bank applies the expected credit loss (ECL) model. In this regard, the Bank applies substantial judgment on the way changes in economic factors are reflected in ECL, which is determined on a likelihood-weighted basis. The impairment model is applied to the following financial assets that are not assessed by fair value through profit and loss (FVPL):

- financial assets comprising debt instruments;
- lease receivables; and
- issued loan commitments and contracts for financial guarantee.

According to IFRS 9, impairment losses are not recognized for equity securities.

IFRS 9 requires recognition of a correction of losses amounting to ECL for 12 months and ECL for the entire duration of the instrument. ECL for the entire duration of the instrument is ECL arising from all possible cases of non-performance throughout the expected duration of a financial instrument, and ECL for 12 months is the part of ECL derived from cases of non-performance that may occur within 12 months after the reporting date.

**Credit, market, liquidity, and operating risk (continued)**

According to IFRS 9, when recognizing the amount of ECL for a financial instrument, the Bank shall adhere to one of the following approaches:

*General approach*

The general approach to measuring of impairment is applied to all financial assets, credit commitments, and financial guarantees, lease receivables within the scope of impairment of IFRS 9, unless the simplified approach is applied.

According to the general approach, ECL is measured as 12-month expected credit losses or expected credit losses throughout the life depending on whether substantial increase of credit risk is present after initial recognition. More specifically:

According to the General approach, the Bank calculates 12-month or expected credit loss for the entire financial instrument (ECL) depending on the severity of change in the financial instrument's credit risk after initial recognition.

To this end, the Bank applies three Phases as described below:

- Phase 1 encompasses all new financial assets upon initial recognition and instruments which have not deteriorated substantially in credit quality after initial recognition;

- Phase 2 encompasses financial instruments which have deteriorated substantially in credit quality after their initial recognition, but which have no objective proof of event of credit loss;

- Phase 3 encompasses financial assets which have objective proof of impairment at the reporting date.

The Bank has defined in its rules and practice total correspondence between the definition of “non-performance", “impaired", and “non-performing” to ensure a homogeneous approach to practices for categorization of loans for supervisory and reporting purposes. As a result:

- Phase 1 and 2 include only performing financial assets,
- Phase 3 includes only non-performing financial assets.

Expected credit loss for 12 months is recognized for assets classified in Phase 1. Expected credit losses throughout their entire lifetime are recognized for financial assets classified in Phase 2. Expected credit losses throughout their entire lifetime are recognized for financial assets classified in Phase 2 and interest income is calculated based on net book value. For financial assets classified in Phase 3, the Bank stops recognizing balance-sheet interest.

*Simplified approach*

The simplified approach to measuring impairment is applied to all commercial receivables (including the factoring portfolio) and all cash funds.

As of 31.12.2021, non-performing exposures classified in Phase 3 amounted to BGN 56,994 thousand or 31% of the loan portfolio. The impairments accrued on them amount to BGN 52,036 thousand.

**Credit, market, liquidity, and operating risk (continued)**

Applying the principle of full coverage of the risk of loss, the Bank charged as at 31.12.2021 provisions for balance sheet exposures and unutilized commitments classified as serviced in Phase 1 and Phase 2 totaling BGN 46,891 thousand. The provisions based on the applicable accounting standards are determined on the basis of the adopted Provisioning Policy.

In order to limit the counterparty credit risk, the Bank uses a system of limits to local and foreign banks/ financial institutions/ corporate clients – established according to the definitions and logic embedded in the methodology for their calculation of the CRisP system. Limits are updated monthly and are available daily through the CRisP system. Disbursement of limits is monitored on a daily basis.

In addition to the system of limits and in order to minimize counterparty credit risk, when concluding repo transactions, the Bank also applies additional limits established in Minimum standards for repo transactions of companies within the Allianz SE group as follows:

Acceptable collateral:

- Primary: State securities of countries and international development banks and organizations with minimum credit rating AAA, deposit with one-day maturity;
- Secondary: State securities of countries with a minimum credit rating of AA, A, and BBB, corporate (senior) securities with a minimum rating of A, deposit certificates from banks with a minimum rating of A, deposit with maturity up to three months, state guaranteed securities;

- Tertiary: Regular stock (with established requirements for free float, listed on established exchanges within the G7 and EU countries), convertible investment-grade bonds.

The following shall not be accepted as collateral: Commodities, loans, structured products such as (CDOs; CLOs; ABSs); properties, as well as shares of CIS investing in properties; variants; issued own issues of securities; any type of assets on emerging markets; exchange-traded funds (ETF), preference shares, subordinated term debt, collateral from issuers classified in “Watch” and “Restricted” lists in the CRisP system.

As at 31.12.2021, the majority of receivables from local and foreign banks are short-term (mostly overnight and up to 7-day deposits). Distribution of exposures to banks (deposits, repos, currency transactions, securities, and guarantees), according to credit rating from ECAA is as follows:

| % | Deposits | Nostro accounts | Securities | Repo transactions | Spot currency transactions (gross value) |
|---|---|---|---|---|---|
| Investment grade | 100% | 100% | 99.86% | - | 100% |
| Speculative grade | - | - | 0.14% | - | - |
| Without rating | - | - | - | - | - |
| **Total** | **100%** | **100%** | **100%** | **-** | **100%** |

**Credit, market, liquidity, and operating risk (continued)**

As of 31.12.2021, 87.23% of the total allocated capital is for credit risk under regulatory framework Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

The Bank manages market risk through an appropriate organizational structure for identification, measurement, monitoring and management. The processes are documented and informationally secured. The assigned capital for operational risk at the end of 2021, calculated according to a standardized approach - basic indicator approach, according to Article 315 of the EU Regulation No 575/2013, is 12.77% of the total capital. There is also an administrative organization for recording and measuring potential operational risk losses.

The Bank owns a portfolio of liquid assets at the end of 2021 (in accordance with Ordinance No. 11 of the BNB on Liquidity Management in Banks) amounting to BGN 1,702,611 thousand, which allows it to maintain an appropriate balance between the maturity of the borrowed resource ongoing financing of its activities. Given that the secondary liquidity ratio recommended by BNB is no less than 20% (Liquid assets/ Borrowed funds), the Bank had a secondary liquidity ratio of 51.01% at the end of 2021 and 45.97% at the end of 2020.

**Credit risk management in connection with the COVID-19 pandemic**

During the reporting period, the Bank's activities were affected by the COVID-19 global pandemic. The COVID-19 pandemic was reflected in the financial and macroeconomic environment in 2021 as well, thus affecting the Bank's activities.

The unprecedented shock of COVID-19, both at EU and global level, initially led to a sudden halt in economic activity and a sharp deterioration in short-term economic perspectives. The Government of the Republic of Bulgaria has implemented a number of measures to mitigate the impact on the economy, such as a moratorium on loans, government-guaranteed loans and programs for the unemployed and for MSEs. The application of the moratorium on payments continued until March 2021 with an end date of effect for some borrowers 31.12.2021. The measures complemented monetary policy and prudential action taken by the ECB and the BNB.

In the second quarter of 2021, the GDP of Bulgaria in real terms decreased by -0.3% on a chain basis. In addition, upward price pressure has recently increased more than expected. Annual HICP inflation continued to accelerate to 4.0% in September 2021 (0.0% in December 2020). The increase in prices was widespread in HICP components and reflected the simultaneous action of pro-inflationary factors in both the external and internal macroeconomic environment. Both the recent slowdown in growth and rising inflation in recent months are due in part to a series of problems in global supply chains, resulting, among other factors, from the relative strength of demand to supply following the rapid economic recovery that was possible thanks to the measures taken in relation to COVID-19. Meanwhile, commodity prices have risen sharply in recent months, especially energy prices, intensifying upward pressure and downward pressure on economic activity.

As a result of high lending activity and uncertainty regarding the development of the economic environment, the BNB Governing Council increased the level of the countercyclical capital buffer applicable to credit risk exposures in the Republic of Bulgaria to 1.5% effective 1 January 2023, based on of assessment under Art. 5, para. 3 and para. 4 of Ordinance No. 8 of the BNB on Capital Buffers, the Combined Buffer Requirement, Restrictions on Allocations and the Recommendation for Additional Equity.

**Credit risk management in connection with the COVID-19 pandemic (continued)**

In connection with the continuing uncertainty and the challenges related to the economic effects of the spread of COVID-19 and the imposed restrictive measures, the Governing Council of the Bulgarian National Bank (BNB) decided to maintain the macro prudential measure to capitalize the full profit of banks for 2020.

Since the beginning of the Covid-19 crisis, the Bank has taken the necessary security and business continuity measures to ensure the sustainability of banking operations and to support its customers and employees, such as:

- establishing adequate control measures regarding the spread of infection in the workplace, which include a system of measures to reduce the transmission of infection and training of employees;
- activation of contingency plans, which include pandemic scenarios and which provide for measures for the specific stages of pandemic development;
- an assessment of how quickly the measures provided for in the pandemic emergency scenario can be implemented and how long the Bank's operations can be maintained in such a scenario;
- remote working and other flexible working conditions for employees to ensure business continuity
- assessment and testing of the capacity of the existing IT infrastructure, also in the light of the potential increase in cyber-attacks and the potential greater dependence on remote banking services;
- assessment of the risks of increased fraud related to cybersecurity, aimed at both customers and the Bank through phishing emails, etc.;
- entering into a dialogue with service providers in order to ensure the continuity of services in the event of a pandemic;
- a moratorium on payments under loan contracts to clients affected by the crisis, as an effective tool in the short-term liquidity difficulties of bank customers.

In connection with the COVID-19 pandemic and in pursuance of the Guidelines of the European Banking Authority (EBA), the decisions of the Bulgarian National Bank and the Association of Bulgarian Banks (ABB) on legislative and private moratoriums on payments under loan contracts applied by In view of the crisis caused by COVID-19, Allianz Bank AD has decided to join the established conditions for a private moratorium on payments and develop an operational plan, which helps in a balanced way to preserve the interests of its customers by continuing to provides high quality leasing services.

The Bank offered its clients facilitation mechanisms for servicing the regular exposures of its borrowers affected by the measures related to the COVID-19 pandemic, following the decisions of the European Banking Authority (EBA), the Bulgarian National Bank and the Association of Banks in Bulgaria ( ABB).

On 11 December 2020, the Governing Council of the Bulgarian National Bank (BNB) pursuant to Art. 16, item 20 of the BNB Act and Art. 79a, para. 3 of the Credit Institutions Act approved the extension of the validity proposed by the Association of Banks in Bulgaria until 31 March 2021 of the adopted "Procedure for deferral and settlement of due liabilities to banks and their subsidiaries - financial institutions in connection with the state of emergency, introduced on 13.03.2020 by the National Assembly, arising from the COVID-19 pandemic ", which is a private moratorium within the meaning of the Guidelines voted by the European Banking Authority (EBA) - EBA / GL / 2020/15 amending Guideline EBA / GL / 2020/02 on legislative and private moratoriums on credit payments in view of the crisis caused by COVID-19.

**Credit risk management in connection with the COVID-19 pandemic (continued)**

The changes are related to:

- Extension of the deadline for submission of a request by clients of the banks for deferral of liabilities and their approval by the banks - until 30 September 2020.
- Extension of the deadline for deferral of liabilities of bank customers - until 31 March 2021
- Extension of the deferral procedure applies to exposures for which no deferral has been requested before 22 June 2020.

In connection with the pandemic of COVID-19, Allianz Bank Bulgaria AD, based on a letter from the Bulgarian National Bank with ref. № BNB-34578 / 03.04.2020 and pursuant to the Guidelines of the European Banking Authority of 2 April 2020 - Guidelines on legislative and non-legislative moratorium on loan repayments applied in light of the COVID-19 crisis (EBA / GL / 2020/02), as amended by EBA Guidelines (EBA / GL / 2020/08 of 25 June 2020) amending Guideline EBA / GL / 2020/02 and by EBA Guidelines (EBA / GL / 2020/15) of 2 December 2020) amending Guideline EBA / GL / 2020/02, offered its clients the following general options for deferral and settlement of liabilities:

- deadline for submission of a request by clients of the banks for deferral of liabilities – until 23 March 2021;
- the deadline for approval of these requests by the banks - until 31 March 2021;
- deadline for deferral of liabilities of bank customers - until 31 December 2021, no more than 9 months;
- introduction of a requirement that the obligations subject to the moratorium were regular or overdue for less than 90 days as of the date of submission of the request for rescheduling;
- introduction of the possibility for the obligations for which a request for deferment was submitted before 30 September 2020 to be able to be additionally deferred, as the total period of all deferrals does not exceed 9 months.

*Operational plan for implementation of the measures for deferral and settlement of liabilities*

The Management Board and the Supervisory Board of the Bank perform adequate supervision over the critical elements of credit risk management, including the following:

- Review of risk-taking standards, risk appetite framework and strategy in realistic macroeconomic scenarios;
- Adequate monitoring and analysis of all changes in the prudential and accounting frameworks;
- Appropriate delegation of competencies and powers to experts and working groups in the Bank for dealing with the impact of the COVID-19 crisis.

In order to ensure a disciplined and effective division of responsibilities in the processes of providing loans, monitoring, restructuring and loan collection processes, an adequate organizational structure has been approved to ensure that activities allocated to individual functions and roles in the first and the second line of defense to achieve a rapid response to the COVID-19 pandemic.

The following departments have been established under the Risk Management Division:

- Risk Control and Reporting Department with Credit Risk, Monitoring and Provisioning Section, which is responsible for monitoring the credit exposures and the Bank's portfolio;
- Credit Risk Department with competencies to approve new transactions;
- Non-Performing Loans Department with the Negotiation and Restructuring Section with competencies to take decisions for renegotiation and restructuring of the Bank's credit exposures.

**Credit risk management in connection with the COVID-19 pandemic (continued)**

*Operational plan for implementation of the measures for deferral and settlement of liabilities (continued)*

The measure (s) granted by the Bank under the approved mechanisms for deferral and settlement of debtors' obligations subject to a moratorium on payments do not automatically lead to the reclassification of exposures as exposures with restructuring measures, the classification being considered on a case-by-case basis in accordance with Article 47b of Regulation (EU) № 575/2013.

For the purposes of Article 178 (1) (b) of Regulation (EU) № 575/2013 and in accordance with Article 178 (2) (e) of that Regulation, the Bank shall report the days in arrears on the basis of the amended payment plan, arising from the application of the moratorium. Similarly, for the purposes of Article 47a (3) (c) of Regulation (EU) № 575/2013, the Bank shall report the days in arrears on the basis of the amended payment plan, arising from the application of the moratorium.

During the moratorium period, the Bank assesses the potential probability of default of debtors covered by the moratorium in accordance with the policies and practices it applies to such assessments, including when they are based on automatic checks for signs of default.

When performing individual assessments of individual debtors, the Bank gives priority to the assessment of debtors for whom the consequences of the COVID-19 pandemic are likely to lead to long-term financial difficulties or insolvency. The Bank assesses the probability of default on the basis of the most up-to-date payment plan resulting from the application of the overall moratorium on payments.

In assessing the probability of default, the Bank takes into account all additional support measures provided that may affect the creditworthiness of the debtor:

- consumer loans to individuals under the BDB Program for guaranteeing interest-free loans to help people deprived of the opportunity to work due to the pandemic of COVID-19 and
- granting / renegotiating loans under the Portfolio Guarantee Program in support of the liquidity of micro, small and medium enterprises (SMEs) affected by the emergency situation and the epidemic of COVID-19 of the Bulgarian Development Bank AD.

Any form of credit risk mitigation, including through guarantees from Bulgarian Development Bank AD, does not affect the results of the assessment of the potential probability of default by borrowers who have benefited from the moratorium after its expiration. When the borrower has other exposures to the Bank that are not subject to a moratorium, the Bank takes into account the impact and results of these exposures in assessing the lessee's ability to comply with the terms of payment after the moratorium expires.

The Bank assesses the potential probability of default by borrowers who have benefited from the moratorium and their related parties, after its expiration, in the following cases:

- Before granting new loans to debtors benefited from the moratorium on the basis of individual assessment;
- Before renegotiating / restructuring existing obligations of debtors benefiting from the moratorium, subject to a moratorium on payments based on individual assessment;
- Monthly on the basis of a systematic inspection during the moratorium;
- At least once a year after submission of the financial statements during the annual review of the debtor and its related parties on the basis of individual assessment;
- After the expiration of the moratorium measure based on a systematic and individual assessment.

**Credit risk management in connection with the COVID-19 pandemic (continued)**

*Operational plan for implementation of the measures for deferral and settlement of liabilities (continued)*

The Bank performs an individual assessment of the probability of default in respect of individual debtors after the end of the moratorium in the following cases:
- where debtors delay payment by more than 30 days within 12 months of the end of the moratorium;
- where restructuring measures are applied to a debtor for whom a moratorium rescheduling has been applied after the expiry of the moratorium;

In addition to the above cases, an extraordinary individual assessment is carried out after the end of the moratorium in the following cases:
- the client's exposure is over BGN 500.000;
- The exposure is included in the list for monitoring.
- the customer's rating results in a Phase 3 classification within the meaning of IFRS 9.

*Indicators of probability of default*

The Bank recognizes exposures as probable of default and identifies indications of probable default in accordance with Section 5 of the EBA Guidelines on the application of the default definition. In assessing the probability of default, the Bank , in accordance with Annex V to Commission Implementing Regulation (EU) No. 680/2014, shall consider at least the following rebuttable circumstances:

- Delay of more than 30 days during the moratorium or up to 12 months thereafter;
- The debtor's internal rating indicates default;
- Implement restructuring measures within 12 months after the moratorium expires;
- Overdue for more than 90 days for any credit exposure of the debtor or related parties;
- Existence of another non-performing exposure of the debtor and / or a related party with restructuring measures, according to Regulation (EU) No. 680/2014;
- The debtor has another exposure classified as impaired;
- The debtor has been declared in liquidation / bankruptcy.

*Measuring expected credit loss (ECL)*

The changes caused by the COVID-19 crisis require the Bank to provide adequate assessment of its exposures and measurement of expected credit loss (ECL). The future effects of the current economic situation and the measures taken are difficult to predict, and management's current expectations and assessments may differ from actual results. For the purpose of measuring expected credit loss (ECL), the Bank applies factors such as forward-looking information (FLI), including forecasts for macroeconomic variables. As with any economic forecast, forecasts and the probability of their occurrence are subject to a high degree of inherent uncertainty and therefore actual results may differ significantly from those forecast.

*Macroeconomic forecasts for the purposes of IFRS 9*

The Bank bases its forecasts on regularly published macroeconomic forecasts of the European Central Bank (ECB) and the Bulgarian National Bank (BNB) without using only long-term averages. In this way, it achieves the right balance between avoiding excessive pro-cyclicality, while at the same time the risks it faces are adequately reflected in the reports and models.

**Credit risk management in connection with the COVID-19 pandemic (continued)**

*Macroeconomic forecasts for the purposes of IFRS 9 (continued)*

The Bank has adopted a conservative approach and its input risk parameters and models are in line with the observed significant deterioration of the economic environment. Model results show higher levels of probability of default (PD) than those underlying the current observed migrations resulting from the COVID-19 pandemic.

Notwithstanding the measures taken related to COVID-19, in connection with the annual review and updating of risk parameters and models, the Bank has taken the following actions:

- The Bank has updated the documentation related to the rating models that it uses to calculate the probability of default (PD), and has explicitly defined the targets for each of the variables through which it monitors the strength of the model.
- As at 31.12. 2021, the Bank has made the necessary changes to the models so as to ensure the effectiveness of the models by expanding the test set and by updating with the latest data, using training sets (for a 5-year period from 28.11.2014 to 30.11.2020), examining the behavior of the debtors of the Bank until 30.11.2020. All changes have been made and integrated into the systems of the Bank. The results of the new models are documented in the PD methodology.
- An internal methodology has been developed based on observations of the portfolio of Allianz Bank Bulgaria AD. Based on this methodology, the current values for Lifetime PD were calculated.
- As at 31.12.2021, the Bank has updated the models for calculating the risk parameters: forward-looking information (FLI), loss given default (LGD) and credit conversion factor (CCF). In connection with the assessment of the adequacy of the models, an analysis of the series of data was made, including for stationarity, autocorrelation, error, stability, prediction accuracy tests. The changes in the models are documented.

Pessimistic scenarios are included with the greatest weight in the models for calculating forward-looking information (FLI) for probability of default (PD), loss given default (LGD) and credit conversion factor (CCF). The balanced distribution of the alternative scenarios around the baseline scenario set in the ECB forecasts is achieved through the established models.

*Assessment of the significant increase in credit risk*

The Bank adequately assesses all risk parameters in order to correctly reflect the increased credit risk, both for the purposes of risk-weighted assets and for the purposes of calculating impairment provisions. To this end, the Bank considers the effects of COVID-19 and related mitigation measures (such as government guarantees and moratoriums) in the process of determining the ratings of each client and quantifying the risk parameter, in accordance with regulatory requirements and approved models and processes, and complying with the requirements of Regulation (EU) 529/2014.

Any change in each component or variable of the PD model implies an assessment of the materiality of the change in the model and approval by the relevant competent authorities of the Bank. In line with the significant deterioration of the economic environment, the granting of payment moratoriums does not lead to improvements in the values of risk indicators compared to those observed before COVID-19.

For moratoriums that do not meet EBA requirements, the restructuring measure is a factor that participates in the model and leads to the award of the most negative rating D (PD 100%) for those classified in Phase 3 or the deterioration of the rating and application of lifetime PD as a result of the Phase 2 classification.

**Credit risk management in connection with the COVID-19 pandemic (continued)**

*Assessment of the significant increase in credit risk (continued)*

The moratorium on payments in relation to COVID-19, which allows, requires or encourages the suspension or delay of payments, is not considered an automatic trigger to trigger estimates of significant increase in credit risk (SICR). The significant increase in credit risk is identified at the earliest possible stage, in practice as soon as the moratorium measure is granted, regardless of the rating system's assessment.

For all exposures affected by the COVID-19 crisis, the Bank applies additional Management Overlays provision (Adjustment by decision of the management related to expected credit losses) under the following conditions:

- The amount of the Management Overlays provision (Adjustment by decision of the management related to expected credit losses) is measured in the case of migration from Phase 1 to Phase 2 and a change in the rating by 1 degree, without a change in the other risk parameters.

- For all exposures for which a Management Overlays provision (Adjustment by decision of the management related to expected credit losses) is accounted for, in the event of a significant increase in credit risk, the exposure is reclassified to Phase 2 and the Management Overlays provision is reintegrated. In the event that an impairment trigger is identified, the exposure is reclassified to Phase 3 and the corresponding provisions are accrued.

The updated criteria for provisioning the portfolio in the light of the COVID-19 crisis have been applied since 19.05.2020 on the basis of a decision of the Bank's Risk Committee.

For loans subject to a moratorium, the Bank has adopted the additional Phase 2 and 3 transfer triggers required by IFRS 9.B5.5.1 to IFRS 9.B5.5.18. Overdue-based triggers are not a factor in the assessment for Phase 2, given that overdue days are reported only on the basis of the revised payment schedule.

In addition, for moratorium exposures, the Bank further reflects the restructuring in the award of the PD parameter based on the lifetime PD default and a one-step conservative rating change, adopting a conservative approach, although the applied model explicitly includes the deterioration of the probability of default as a result of the deterioration of the macro environment.

The Bank applies a conservative approach to the phase-shift triggers within the meaning of IFRS 9, defined on the basis of each deterioration with one grade to which the corresponding absolute PD corresponds. The Bank has not introduced higher relative thresholds for switching between phases for debtors with higher PDs or lower ratings. Phase transfer rules have not changed as a result of the Covid-19 pandemic, i.e. in the event of occurrence or more variable rating migrations.

The Bank adheres to good practices by applying the provision calculating approach in the case of the transfer to Phase 2 for those cases in which individual assessments are not possible or the usual indicators do not work.

The calculation of provisions for Phase 2 applies to all exposures with moratorium measures that are not classified in Phase 3. This approach allows for the timely recognition of the effects of the coronavirus pandemic (COVID-19) and eliminates any need for a "huge upward revision" at a later stage.

**Credit risk management in connection with the COVID-19 pandemic (continued)**

*Assessment of the significant increase in credit risk (continued)*

The Bank takes into account IFRS 9.5.5.11. and considers that all Covid-19 exposures overdue for more than 30 days have undergone a significant increase in credit risk and charges them for Phase 3 provisions. In addition to the statistics in accordance with IFRS 9.B5.18, the Bank also uses qualitative information to determine which exposures require expected lifelong losses to be recognized.

The information used for this purpose is in line with the impairment triggers used in monitoring clients and portfolios and also includes elements such as the restructuring measure applied, increased indebtedness, payment volatility and violation of lending policies. In this regard, the Bank has adopted an operational plan for assessing the probability of default.

In connection with the requirements of IFRS 9.B5.5.17 (f) and IAS 9.B5.5.17 (i) the Bank performs a sector analysis, thus taking into account any adverse changes in the borrower's business, financial and economic environment. The Bank has in mind that borrowers are affected (directly or indirectly) by the coronavirus pandemic (COVID-19) to varying degrees, depending on their sector. In this respect, macroeconomic information and / or the adverse business impact on specific sectors may in themselves indicate that there is a significant increase in credit risk for adversely affected exposures.

The Bank may make a transfer to Phase 2 only because of these specific circumstances, unless there is more detailed information to indicate that the exposures may still remain in Phase l. The Bank has performed the relevant analyzes, from which it is necessary to conclude that the adverse effects arising from the business, financial and economic environment do not affect the entire portfolio. Allianz bank Bulgaria AD applies analytical approaches to systematically determine which parts of the portfolio have not undergone a significant increase in credit risk. The assessments are supported by the individual ratings of each debtor.

Restructuring measures that are not in line with the EBA guidelines on the payment moratorium lead to a transfer to at least Phase 2. Based on the technical criteria: Defaulted Flag, number of restructuring measures, overdue status, the Bank assigns each exposure to a pre-defined risk classification group. In the event of a delay of more than 30 days or other impairment triggers, the exposure is classified in Phase 3.

**Environmental Issues**

As part of the Bank's corporate responsibility strategy, the “low-carbon economy” pillar addresses climate change and environmental issues as one of the three most significant risks and megatrends. As part of a risk management group, environmental impact management is an important part of the Bank's approach. Climate change continues to be the greatest risk to the environment and at the same time an opportunity for the entire value chain, which covers both the Bank's internal operations and all its investment and insurance products. Allianz Bank Bulgaria AD is committed to tackling climate challenges and related health risks by managing emissions from its operations as it seeks to remain a carbon-neutral company. Allianz Bank Bulgaria AD is committed to effectively managing its most significant environmental impacts, including pollution prevention, and strives to continuously improve the environmental performance of its operations. We also take into account various environmental factors in our supply and delivery processes. In this way, we strive to raise the awareness of our suppliers about our environmental commitments by encouraging them to take appropriate action.

**The Bank as an Investment Intermediary**

Allianz Bank Bulgaria AD is a primary dealer of government securities, an investment intermediary with full license, member of BSE-Sofia AD and Central Depository AD. Investment intermediation activities include transactions with financial instruments for own account or for the account of clients of the bank. The main set of financial instruments that are traded are government and corporate bonds, shares and related rights, compensatory instruments, and shares in collective investment schemes.

Under the conditions of super-liquidity and negative interest rates on the money markets in BGN and EUR in 2021, ABB sought to optimize its investments in fixed income instruments in terms of risk and profitability. In addition, the Bank served its clients' orders both on local and international financial markets. Of the total volume of transactions in financial instruments realized in 2021 over 90% of them are from government securities transactions.

**Other information**

In the past 2021, the Bank did not have any R & D activities.

**Events that occurred after the date of preparation of the financial statements and the activity report**

There are no significant events occurring after the date of preparation of the statement of financial position and the statement of operations that would require additional disclosures or adjustments to the financial statements.

**Management and supervisory boards**

The total remuneration received in 2021 by the members of the Management and Supervisory Board of ALIANZ BANK BULGARIA AD amounted to BGN 1,194 thousand (2020: BGN 1,007 thousand) In 2021 there are no acquired, owned and transferred shares and bonds of the Bank by the members of the Supervisory and Management Boards. The Bank's Articles of Association do not provide for any restrictions or preferential arrangements for the members of the Management Board and the Supervisory Board when acquiring shares and bonds issued by the Bank.

The shares in the capital of ALIANZ BANK BULGARIA AD are not traded on a regulated market and therefore the provisions of Directive 2004/25 / EC of the European Parliament and of the Council of 21.04.2004 on takeover bids are not applicable.

Participation of the members of the Management and Supervisory Board in commercial companies as at 31.12.2021:

1. DIMITAR ZHELEV - does not participate in commercial companies as an unlimited liability partner; owns more than 25% of the capital of BULLS AD, Sofia and DZH AD, Bankya; Administrator of ALLIANZ BULGARIA HOLDING AD, Sofia, UNICREDIT BULBANK AD, city of Sofia; "DZH" AD, city of Sofia; "BULLS" AD, city of Sofia and REAL ESTATE DEVELOPMENT EAD, Sofia; IC Allianz Bulgaria city of IC Allianz Bulgaria Life AD city of Sofia.
2. CHRISTOPH PLEIN- does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; administrator of ALLIANZ INVESTMENT MANAGEMENT SE
3. RAYMOND SEAMER- does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company;
4. REINER FRANZ- does not participate in commercial companies as an unlimited liability partner; holds more than 25% of the capital of Communication sro, Bratislava; is an administrator of Communication sro, Bratislava.

**Management and Supervisory Board (continued)**

5. KAY MÜLLER - does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company, administrator of ALLIANZ NEW EUROPE HOLDING GMBH, ALLIANZ PENZIJNI SPOLECNOST, A.S., ALLIANZ ALAPKEZELO ZRT., ALLIANZ HUNGARIA ZRT., ALLIANZ ZB LTD MANDATORY AND VOLUNTARY PENSION FUNDS MANAGEMENT COMPANY, ALLIANZ BANK BULGARIA AD, TFI ALLIANZ POLSKA S.A., TUiR ALLIANZ POLSKA S.A., TU AL LIANZ ZYCIE POLSKA S.A., ALLIANZ POJISTOVNA, A.S., ALLIANZ-TIRIAC ASIGURARI S.A., PENSION INSURANCE COMPANY ALLIANZ BULGARIA JSC
6. ED GUS since 07.05.2019 does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company;

**Members of the Management Board as at 31.12.2021 :**

1. Ioannis Kotsianos - does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; administrator of IC Allianz Bulgaria Life, IC Allianz Bulgaria Life, PIC Allianz Bulgaria AD, Allianz Leasing Bulgaria EAD, IC Energy.

2. Georgi Zamanov- does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; is not an administrator of commercial companies.

3. Hristina Martsenkova - does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; Registered is a sole trader - ET with company "HM - Hristina Hristova".

4. Yordan Suvandzhiev- does not participate in commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; is not an administrator of commercial companies.

5. Lyuba Pavlova - sole owner of the capital and manager of Risk Fermer EOOD, does not participate in other commercial companies as an unlimited liability partner; does not hold more than 25% of the capital of another company; is not an administrator of commercial companies.

There is no information on the conclusion in 2021 of contracts under Art. 240b of the Commercial Act between the members of the Boards and the Bank, which go beyond the normal activity of the Company or materially deviate from the market conditions.

No transferred own shares or acquired shares in 2021 under Article 187e of the Commerce Act. ALIANZ BANK BULGARIA AD does not hold its own shares.

**Internal control**

The audit work of the Bank's Specialized Internal Audit Service (SIAS) is regulated by the Credit Institutions Act, Ordinance No. 10 of the BNB on organization, management and internal control in banks, the Internal Audit Policy and the Internal Rules for its Organization and Activities. Internal Audit assesses the efficiency and effectiveness of the internal control framework the bank.

The internal audit assesses the compliance of the bank processes and activities of the Bank's units with the legal framework and with the internal banking rules and procedures, performing methodological functions to unify the good practices in the Bank's system. Through an independent and objective assessment of the quality of the internal control system, the Specialized Internal Audit Service seeks to add value and improve the effectiveness of ABB.

**Internal control (continued)**

In 2021, with 34 planned audits, the Internal Audit Department has carried out 36 audit engagements, incl. 2 unscheduled ones, of which 15 in the activities/processes/units in the Headquarters and 21 in the Bank's business centers. Detailed information on the results of the audits is contained in the Annual Activity Report of the SIAS.

The Bank's management reacts in a timely manner and takes adequate measures to implement the recommendations proposed by the Internal Audit to improve internal control in the main banking processes and activities. In general, the control procedures introduced are adequate, the internal control system is reliable and sufficiently limits the inherent risks to the business to the level deemed acceptable for the Bank.

**Responsibility of the Management**

According to the Bulgarian legislation, the management should prepare a financial statement for each financial year, which gives a true and fair view of the state of the Bank at the end of the year and its accounting results. The financial statement shall be prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union.

The Management confirms that it has consistently applied adequate accounting policies and that in preparing the financial statements as at 31 December 2021, it complied with the precautionary principle for the recognition and measurement of assets, liabilities, income and expenses.

The Management also confirms that it has adhered to the accounting standards in force, and the financial statements have been prepared on a going concern basis.

The Management is responsible for the proper keeping of accounting records, for the proper management of assets, and for taking the necessary measures to avoid and detect possible misuse and other irregularities.

**Dear Shareholders,**

By the end of 2021, the Bank is stable and will continue to respond adequately to unforeseen risks and fluctuations in the marketplace.

The institution carries the name of a world-famous financial leader and enjoys an excellent reputation in professional circles and among its clients. We are confident that offering integrated banking, insurance and pension insurance products, quality customer service and sustainable business growth will deliver even better results.

This Activity Report was adopted by the Bank's Management Board on 24 February 2022 and was signed on its behalf by:

| | |
|---|---|
| ____________________ | ____________________ |
| Georgi Zamanov | Evgeniya Aleksandrova |
| *CEO* | *Procurator* |

**CORPORATE MANAGEMENT DECLARATION**
**of Allianz Bank Bulgaria AD**
**for 2021**

Allianz Bank Bulgaria AD views good corporate management as a part of contemporary business practice, an aggregate of balanced relations between the Management bodies of the Company, its shareholders and all stakeholders – employees, clients, partners and the community as a whole. The bank implements appropriate practices for good corporate management, which result from the current Bulgarian legislation and the requirements of Allianz Group for good corporate management. The upper management of the Bank believes the effective implementation of good corporate management practices contribute to achieving sustainable growth and the long-term goals of the Company, as well as establishing transparent and honest relation to all stakeholders. *(information under Article 100m, paragraph 8, item 1b) of the Public Offering of Securities Act)*.

Allianz Bank Bulgaria AD adopts and implements a Business Ethics Code of Conduct / Ethical Code of Conduct of Allianz Group *(information under Article 100m, paragraph 8, item 1c) of the Public Offering of Securities Act)*:
Allianz Bank Bulgaria AD adopts and implements the group policy for stress management in the bank for the continuous improvement of occupational health and safety. *(information under Article 100m, paragraph 8, item 1c) of the Public Offering of Securities Act).*

When appointing people to managerial positions, Allianz Bank Bulgaria AD applies the principles underlying in the Qualification and Reliability Policy of Allianz Group.

**In compliance with the above policies, Allianz Bank Bulgaria AD declares their commitment to the application of the principles of transparency, independence and responsibility of the managerial and supervisory bodies of the Bank (Supervisory and Management Board) in compliance with the established vision, goals, strategies of the companies and the interests of the shareholders.** *(information under Article 100m, paragraph 8, item 5) of the Public Offering of Securities Act).*

**1. Diversity policy regarding administrative, managerial and supervisory bodies** *(information under Article 100m, paragraph 8, item 6 of the Public Offering of Securities Act).*

1.1. The Supervisory board of Allianz Bank Bulgaria AD consists of 6 (six) members, who are appointed by the General assembly of the shareholders for a set term.
1.2. The Supervisory board performs their activity in compliance with the Bank Statute and the Supervisory Board Working Regulations, as well as the applicable legislation.
1.3. The Management board of Allianz Bank Bulgaria AD consists of 5 (five) members, appointed by the Management board.
1.4. The Management board performs their activity in compliance with the Bank Statute and the Management Board Working Regulations, as well as the applicable legislation.
1.5. In the performance of their functions and powers the Supervisory and Management boards are governed by the current legislation, by internal regulations and the standards for integrity and competence.
1.6. The members of the managerial bodies can only be competent individuals, without restrictions as to age, gender, nationality or education.
1.7. The members of the Management board and Supervisory board include individuals with good reputation, professional experience and managerial skills. Forming the composition of the managerial and supervisory bodies aims a balance between experience, professionalism, knowledge of the activity as well as independence and objectivity in expressing opinions and decision-making.
1.8. The members of the Management and Supervisory boards can be reappointed without limitation.

**1. Diversity policy regarding administrative, managerial and supervisory bodies** *(information under Article 100m, paragraph 8, item 6 of the Public Offering of Securities Act).* **(continued)**

1.9. The managerial bodies are assisted in their activities by internal bank bodies (committees and commissions) with particular powers, regulated by legislation or internal bank rules and procedures.

1.10.Specialized bodies to the Management and Supervisory Board of the Bank

1.10.1.RiskCommittee / RiCo /

The Risk Committee is an independent body to the Management Board of the Bank, whose main objective is to establish and maintain control over risk management activities. Creates, develops and approves the risk strategy in line with business strategy and risk appetite. Controls the risk capital allocation. Ensures appropriate monitoring and risk control at the individual and portfolio levels. The risk management structure covers systems, processes, organizational units and individuals whose main purpose is to implement the function independent of the operational units in identifying, monitoring and managing the risk assumed by the bank.

Risk management at the bank ensures identification, measurement and reporting of all material risks. The respective responsible persons performing risk management functions in the bank participate in the design of the risk management strategy when making all decisions related to the management of significant risks and are able to present a full overview of the risks to which it is exposed or may be exposed to the bank.

The risk committee is chaired by the Chief Risk Officer and meets at least once a month on a proposed agenda. The Risk Committee's work is defined in detail in the "Operating Rules of the ABB Risk Management Committee". The members of the Committee are the Chief Operating Officer, the Chief Financial Officer, the Head of the Credit Risk Department and the Head of the Risk Controlling and Reporting Department.

A Risk Committee at the Supervisory Board level is a subsidiary body of the Supervisory Board that monitors and oversees the management and control of risks. The approval of transactions with gross exposures of more than 5% of the capital base must be approved by that committee before being submitted for approval to the Supervisory Board. Members are two members of the Supervisory Board. The Chief Executive Officer and Chief Risk Officer are "permanent guests". They meet quarterly.

1.10.2. Asset and Liability Management Committee (ALMC)

The Asset and Liability Management Committee supports the Management Board's business strategy, policies and the overall asset and liability management system as well as management of the Bank's liquidity. It approves investment policy for new products. The main purpose of asset and liability management is to ensure stable earnings and optimize the return on capital of the Bank while maintaining acceptable levels of risk and capital adequacy in the implementation of the development strategy and the assigned tasks in the plan for the respective financial year.

The Committee shall be chaired by the Chief Financial Officer and shall meet at least once a month. The members of the Committee are the Chief Executive Officer, the Chief Business Officer, the Chief Risk Offices, the Head of the Liquidity and Markets Department and the Head of the Planning and Controlling Department. The Chief Risk Officer has the right to veto decisions related to liquidity management.

**1. Diversity policy regarding administrative, managerial and supervisory bodies** *(information under Article 100m, paragraph 8, item 6 of the Public Offering of Securities Act).* **(continued)**

1.10.3. Credit board

The Credit Board of Allianz Bank Bulgaria AD, hereinafter referred to as the "CB", is a standing internal bank collective body for making decisions on credit transactions, restructuring of problematic credit exposures for the purpose of their reorganization, approval of an action plan for collection / , as well as the approval of out-of-court agreements for the collection / recovery of the bank's claims.

The activities within the competence of the Credit Board of Allianz Bank Bulgaria AD are:

Any undertaking of credit risk in the portfolio, renegotiation and review of existing exposures in the three segments - Retail Banking, Corporate Banking and Investment Banking, whereby a net credit exposure of the client and its affiliates on the relevant business line is formed in excess of the specified competences.

Restructuring of credit transactions, approval of an action plan / proposal on problematic claims, incl. decision on early claims, incl. determining how to recover the claim and making an out-of-court settlement; taking a decision for the Bank to foreclose on collateral assets for sale or management; making a cession decision; write-off of the claim at the expense of provisions, termination of balance sheet or off-balance sheet exposures, etc. for the net credit exposure of the client and related parties in the respective business line.

The Credit Board is chaired by the Chief Executive Officer. The members of the Board are the Chief Business Officer, the Deputy Business Officer, the Chief Risk Officer, the Head of the Credit Risk Department, and the Head of the Non-Performing Loans Department.

1.10.4. Non-Performing Loans Credit Committee

The Non-Performing Loans Credit Committee of Allianz Bank Bulgaria AD, is a standing internal bank collective body for making decisions on restructuring of problematic credit exposures for the purpose of their reorganization, approval of an action plan for collection / , as well as the approval of out-of-court agreements for the collection / recovery of the bank's claims.

The activities within the competence of the Non-Performing Loans Credit Committee are:

- termination of balance sheet or off-balance sheet exposures

- Restructuring of credit transactions, approval of an action plan / proposal on problematic claims, incl. decision on early claims, incl. determining how to recover the claim and making an out-of-court settlement; taking a decision for the Bank to foreclose on collateral assets for sale or management; making a cession decision; write-off of the claim at the expense of provisions, etc.
- Other functions deriving from domestic banking regulations approved in the appropriate order - Procurement Policy; Rules and procedures regarding the activity of managing the bank's problematic claims; as well as regulatory documents of the Allianz Group.

**1. Diversity policy regarding administrative, managerial and supervisory bodies** *(information under Article 100m, paragraph 8, item 6 of the Public Offering of Securities Act).* **(continued)**

The Non-Performing Loans Credit Committee is chaired by the Head of the Non-Performing Loans Division and meets regularly every Tuesday at 14:00 h and on the last working day of the current month. The members of the committee are the Head of the Restructuring-Centralization Department at the Non-Performing Loans Department, the Head of the Non-Performing Loans Administration Department at the Non-Performing Loans Department, the Head of the Judicial Collection Department at the Non-Performing Loans Department and Legal Adviser in the Non-Performing Loans Department.

**2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process** *(information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act)*

**Internal control system**

2.1. Allianz Bank Bulgaria AD has established an internal control system, for the purpose of protecting the interests and the rights of shareholders and clients, as well as contributing to lowering the risks, ensuring reliability and authenticity of reporting in compliance with the regulatory requirements.

2.1.1. Audit Committee

The Audit Committee of the Bank is established and acts in accordance with the requirements of the Independent Financial Audit Act (prom. SG 95/29.11.2016), Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and Directive 2006/43 / EC of the European Parliament and of the Council Of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts.

The Audit Committee is an independent permanent body, the members of which are elected and dismissed by the General Meeting of Shareholders on the proposal of the Chairman of the Supervisory Board of the Bank. The organization and activity of the Audit Committee are regulated in the Rules of Procedure of the Audit Committee, adopted by the General Meeting of Shareholders.

The Audit Committee assists the Bank's governing bodies in the performance of their duties relating to the supervision of financial reporting, internal audit, internal control and compliance with legal and regulatory provisions as well as the Allianz Group Business Ethics and Compliance Code of Conduct (Ethical Code).

2.1.2. The Bank's Specialized Internal Audit Service (SIAS)

The Specialized Internal Audit Service was established on the grounds of Art. 74 of the Credit Institutions Act under the requirements of BNB Ordinance No. 10 on the organization, management and internal control in banks and the Statute of the Bank. The primary objective of the SIAS is to improve the Bank's operations and achieve its objectives by implementing a systematic and disciplined approach to assessing and improving the Bank's risk management, control and management processes. It assists the Bank's governing bodies in taking decisions of a financial and organizational nature in order to protect the interests of the Bank, its shareholders and depositors and monitor their implementation

**2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process** *(information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act )* **(continued)**

2.1.2. The Bank's Specialized Internal Audit Service (SIAS) (continued)

The internal audit carried out by the SIAS is an independent and objective valuation of bank transactions and control operations and systems that is being verified and evaluated.

- the legality of operations, compliance with internal rules and procedures and the implementation of management decisions;
- internal control procedures for conducting transactions;
- risk management systems, risk assessment methods and capital adequacy;
- performance of contracts and commitments;
- the compliance of banking practices with the Bank's operational and strategic policy;
- protection of assets and bank records from negligence and abuse;
- a reporting and information system, the usefulness of analyzes, electronic information systems and data loyalty;
- the efficiency and the results of the bank transactions and operations carried out;
- the selection and qualification of staff, and the relevance of job descriptions and competences;
- the reliability and timeliness of the supervisory reports.

**2.2. Regulatory Control**

The compliance management function is limited to preventing and limiting the occurrence of regulatory discrepancies, violations and conflicts of interest **.** The ultimate goal is to preserve the Bank's reputation and customer loyalty.

**Risk management system**

2.3. The management of the Bank strives to develop active management of all types of risks arising from the specifics of banking activity - market, liquid, credit, operational and reputational.

2.4. The risk management system determines the powers and responsibilities in the separate structural divisions of the Bank, the organization and order of cooperation in risk management, analysis and assessment of information, related to risk, preparing periodic reports of risk management.

2.5. The organization and activity of officials and units related to risk management in the Bank are fully compliant with the requirements of the Credit Institutions Act, the issued Ordinance No. 7 of the BNB dated 24 April 2014 on the organization and risk management in banks, and all other relevant legislation, rules and policies.

2.6. RiskCommittee /RiCo/ The Risk Committee is an independent body to the Management Board of the Bank, whose main objective is to establish and maintain control over risk management activities. Creates, develops and approves the risk strategy in line with business strategy and risk appetite. Controls the risk capital allocation. Ensures appropriate monitoring and risk control at the individual and portfolio levels. The risk management structure covers systems, processes, organizational units and individuals whose main purpose is to implement the function independent of the operational units in identifying, monitoring and managing the risk assumed by the bank.

**2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process** *(information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act )* **(continued)**

**2.2. Regulatory control (continued)**

**Risk management system (continued)**

2.6. RiskCommittee /RiCo/ (continued)

Risk management at the bank ensures identification, measurement and reporting of all material risks. The respective responsible persons performing risk management functions in the bank participate in the design of the risk management strategy when making all decisions related to the management of significant risks and are able to present a full overview of the risks to which it is exposed or may be exposed to the bank.

Detailed risk management in the Bank is described in the Annual Financial Statement and Activity Report.

**Components and main characteristics of internal control system and of the risk management system in connection with the financial reporting process of the Bank**

2.7. Controlled environment. The controlled environment includes the following elements:

- Communication and imposition of integrity and ethical values. Imposing integrity and ethical values includes, but is not limited to, action by the management for elimination or mitigation of stimuli or temptation which could induce the staff to engage in dishonest, illegal or unethical conduct. The policy of integrity and ethical values of the Bank includes communication of ethical standards to the staff via following the Business Ethics Code of Conduct / Ethical Code of Conduct of Allianz Group

- Commitment to competence. Competence means the knowledge and skills, necessary for performance of the tasks included in the job description of the respective person.

- Participation of those charged with governance via monitoring of the model design and the effective functioning of the alert procedures and efficiency review procedures of the internal Bank control.

- Philosophy and operational style of the management.

- Established proper organizational structure, including taking into consideration the main areas of powers and responsibilities and the proper hierarchy levels of reporting

- Assigning appropriate powers and responsibilities.

- Policy and practice, related to human resources, including high standards of recruiting qualified personnel – focused on , education level and former professional experience, with accent on continued education

**2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process** *(information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act )* **(continued)**

**2.2. Regulatory control (continued)**

**Risk management system (continued)**

2.8. Risk Assessment Process of the Bank. For the purpose of financial reporting, the Bank's risk assessment process includes the manner in which the management identifies business risks, material for the preparation of a financial statement in compliance with the financial reporting framework applicable to the enterprise, assesses their significance, assesses the probability of their occurrence and decides on the best response to these risks and the way to manage them and to assess the results. The risks, material to reliable financial reporting include internal and external events, transactions and circumstances, which can occur and negatively impact the ability of the Bank to initiate, register, process and report financial information, in compliance with the assertions made by the management in the financial statement.

Risks can occur or change due to circumstances like the ones listed below:

- Changes in the regulatory environment;
- New staff;
- New or updated information systems;
- Rapid growth;
- New technologies;
- New business models, products or activities;
- Corporate restructuring; and
- New accounting standards and clarifications.

2.9. Information system, including the related business processes, relevant to financial reporting and communications. The information system includes infrastructure (physical and hardware components), software, people, procedures and data. The information system of the Bank, related to the purposes of financial reporting, which includes the financial reporting system, includes methods and documentation which:

- Identify and reflect all valid deals and operations;

- Describe promptly the deals and operations with enough detail, allowing their proper classification for the purposes of financial reporting;

- Assess the value of the deals and operations in a manner which allows the reflection of their proper monetary value in the Bank's financial statement

- Determine the time period during which the deals and operations in order to allow their recording in the proper reporting period;

- Properly represent the deals and operations and the related disclosures in the financial statement.

2.10. Control activities. The Bank has adopted a number of policies and procedures regarding the following:
- Performance and results reviews;

- Information processing;

**2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process** *(information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act ) (continued)*

**2.2. Regulatory control (continued)**

**Risk management system (continued)**

2.10. Control activities. (continued)

- Physical controls (asset security, approval of access to computer programs and data files; periodic counting and comparison of amounts in the accounting registers); and

- Separation of duties.

2.11. Current monitoring of controls. An important responsibility of the management is to establish and maintain continuous internal control. The current monitoring of controls by the management includes assessment whether they work as intended and whether they are modified appropriately to reflect changes in the circumstances. Internal auditors and other staff with similar functions contribute to the current monitoring of controls thought separate assessments.

**3. Information on the existence of takeover or merger bids in 2020** *(information under Article 100m, paragraph 8, item 4 of the Public Offering of Securities Act – respectively under Article 10, paragraph 1, letters "c", "d", "f", "h" and "i" of Directive 2004/25/EC of the European Parliament and the Council of 21 April 2004 on takeover bids)*

3.1. As at 31.12.2021 Allianz Bank Bulgaria AD has not received any takeover or merger bids from other companies.

Allianz Bank Bulgaria AD, cognizant of the public significance of their performance results, observes the principle of transparency of information regarding their activity, strives to achieve and maintain stable, constructive relations with the BNB, FSC, NSSI, NRA and other state bodies and institutions, which are related or have control over their activity. These relations are based on the principles of responsibility, good faith, professionalism, partnership, trust, and also respect and observance of commitments.

The Bank carries out their activity in strict compliance with the laws and other regulations of Republic of Bulgaria.

This Declaration of corporate management is prepared in accordance with Article 40 of the Accountancy Act and was approved by the Management Board for issuing on 24 February 2022, and in an integral part of the annual report for 2021 by Allianz Bank Bulgaria AD, together with the annual financial statement and the Management activity report.

On behalf of the Management Board of Allianz Bank Bulgaria AD:

| | |
|---|---|
| Georgi Zamanov | Evgeniya Aleksandrova |
| CEO | Procurator |

**For the year ended 31 December**

| *In BGN thousand* | **App.** | **2021** | **2020** |
|---|---|---|---|
| Interest Income | 9 | 57,662 | 58,805 |
| Interest expense | 9 | (1,927) | (939) |
| **Net interest income** | 9 | **55,735** | **57,866** |
| Fees and commissions income | 10 | 26,664 | 22,225 |
| Fees and commissions expenses | 10 | (10,223) | (8,548) |
| **Net income from fees and commissions** | 10 | **16,441** | **13,677** |
| Net income from trade operations | 11 | 414 | 236 |
| Income from investment operations | 12 | 173 | 68 |
| **Total income from banking operations** | | **72,763** | **71,847** |
| Other operating income | 14 | 6,813 | 6,222 |
| Net impairment losses on financial assets measured at amortized cost and fair value through other comprehensive income | 20 | (18,311) | (25,272) |
| Net impairment losses on other financial assets | 20 | (12) | (23) |
| Administrative and other costs | 13 | (41,894) | (43,574) |
| **Profit before tax** | | **19,359** | **9,200** |
| Tax expenses | 15 | (2,033) | (959) |
| **Profit for the year** | | **17,326** | **8,241** |

The profit or loss account should be read in conjunction with the appendices on page 37 to 164 that are an integral part of the financial statements. The financial statement was approved by the Management Board for publishing on 24 February 2022.

| | | |
|---|---|---|
| Georgi Zamanov | Evgeniya Aleksandrova | Lyuba Pavlova |
| *CEO* | *Procurator* | *Prepared by* |

According to the independent auditors' report

| | |
|---|---|
| PricewaterhouseCoopers Audit OOD | "HLB Bulgaria" OOD |
| Jock Nunan | Dimitrios Papazis |
| *Procurator* | *Manager* |
| Anna Boteva | Stoyan Stoyanov |
| *Registered Auditor, responsible for the audit* | *Registered Auditor, responsible for the audit* |

| **For the year ended 31 December** | | | |
|---|---|---|---|
| *In BGN thousand* | **App.** | **2021** | **2020** |
| **Profit for the year** | | **17,326** | **8,241** |
| **Other components of comprehensive income:** | | | |
| ***Items that may be reclassified in profit or loss:*** | | | |
| Net change in the fair value reserve | | (6,270) | 300 |
| Income tax related to components of other comprehensive income that may be reclassified | | 627 | (30) |
| | | **(5,643)** | **270** |
| ***Items that will not be reclassified in profit or loss:*** | | | |
| Net change in the fair value reserve of capital instruments | | 1,245 | 808 |
| Income tax related to components of other comprehensive income that will not be reclassified | | (125) | (81) |
| Subsequent measurement of obligations under a defined benefit plan | 32 | (62) | (26) |
| Tax on subsequent measurement of obligations under a defined benefit plan | | 6 | 3 |
| Other adjustments from previous year | | | - |
| | | **1,064** | **704** |
| **Other comprehensive income, net of taxes** | | **(4,579)** | **974** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **12,747** | **9,215** |

The statement of comprehensive income should be read in conjunction with the appendices on page37 to 164 that are an integral part of the financial statements. The financial statement was approved by the Management Board for publishing on 24 February 2022.

Georgi Zamanov
*CEO*

Evgeniya Aleksandrova
*Procurator*

Lyuba Pavlova
*Prepared by*

According to the independent auditors' report

PricewaterhouseCoopers Audit OOD

"HLB Bulgaria" OOD

Jock Nunan
*Procurator*

Dimitrios Papazis
*Manager*

Anna Boteva
*Registered Auditor, responsible for the audit*

Stoyan Stoyanov
*Registered Auditor, responsible for the audit*

| *In BGN thousand* | **App.** | **31 DECEMBER 2021** | **31 DECEMBER 2020** |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 16 | 936,551 | 981,561 |
| Financial assets at fair value through profit and loss | 17 | 3 | 3 |
| Loans and advances to banks | 18 | 9,753 | 39,059 |
| Loans and advances to clients | 20 | 1,622,880 | 1,547,666 |
| Financial assets at fair value through other comprehensive income | 19.1 | 373,643 | 210,056 |
| Financial assets measured at amortized cost: | 19.2 | 633,413 | 468,543 |
| Property, plant and equipment | 21 | 10,697 | 7,587 |
| Right-of-use assets | 22 | 14,760 | 8,538 |
| Intangible assets | 23 | 9,565 | 7,630 |
| Current tax assets | | 1,434 | 1,258 |
| Deferred tax assets | 29 | 46 | - |
| Other financial assets | 24 | 1,458 | 512 |
| Other assets | 25 | 8,669 | 8,196 |
| **Total assets** | | **3,622,872** | **3,280,609** |
| **Liabilities** | | | |
| Deposits from banks | 27 | 24,714 | 28,156 |
| Deposits from clients | 26 | 3,306,667 | 2,983,881 |
| Other borrowed funds | 27 | 2,304 | 4,956 |
| Liabilities under lease agreements | 28 | 15,065 | 8,431 |
| Provisions for guarantees | | 4,019 | 2,881 |
| Deferred tax liabilities | 29 | - | 145 |
| Other financial liabilities | 30 | 5,924 | 2,607 |
| Other liabilities | 31 | 6,682 | 4,802 |
| **Total liabilities** | | **3,365,375** | **3,035,859** |
| **Equity** | | | |
| Fixed capital | 33 | 69,000 | 69,000 |
| Statutory reserves | 33 | 9,850 | 9,850 |
| Retained earnings | | 174,622 | 156,301 |
| Fair value reserve | | 4,025 | 9,599 |
| **Total shareholders' equity** | | **257,497** | **244,750** |
| **Total liabilities and equity** | | **3,622,872** | **3,280,609** |

The statement of financial position should be read in conjunction with the appendices on pages 37 to 164 that are an integral part of the financial statements. The financial statement was approved by the Management Board for publishing on 24 February 2022.

| | | |
|---|---|---|
| Georgi Zamanov | Evgeniya Aleksandrova | Lyuba Pavlova |
| *CEO* | *Procurator* | *Prepared by* |

According to the independent auditors' report

| | |
|---|---|
| PricewaterhouseCoopers Audit OOD | "HLB Bulgaria" OOD |
| Jock Nunan<br>*Procurator* | Dimitrios Papazis<br>*Manager* |
| Anna Boteva<br>*Registered Auditor, responsible for the audit* | Stoyan Stoyanov<br>*Registered Auditor, responsible for the audit* |

**For the year ended 31 December**

| *In BGN thousand* | **App.** | **2021** | **2020** |
|---|---|---|---|
| **Cash flows from operating activity** | | | |
| Profit for the year | | 17,326 | 8,241 |
| ***Adjustments for non-cash transactions:*** | | | |
| Net impairment losses on financial assets | | 17,099 | 25,272 |
| Net impairment losses on other financial assets | | 1,224 | 23 |
| Impairment losses on non-financial assets | 23 | - | 344 |
| Depreciation | 21,23 | 2,095 | 1,870 |
| Depreciation of right-of-use assets | 22 | 3,066 | 3,449 |
| Dividends income | 12 | (173) | (68) |
| Interest income | 9 | (57,662) | (58,805) |
| Interest expense | 9 | 1,927 | 939 |
| Net (gains) on financial asset transactions, including currency revaluation | 11 | (2,314) | (2,294) |
| Net (profits)/ losses from re-measurement of financial assets measured at fair value through profit or loss | 11 | 1,900 | 2,058 |
| Income tax expenses | 15 | 2,033 | 959 |
| ***Cash flows used in operating activities before changes in operating assets and liabilities*** | | **(13,479)** | **(18,012)** |
| ***Changes in assets and liabilities in operating activities:*** | | | |
| Financial assets reported at fair value through profit or loss. | | 2,314 | 2,294 |
| Loans and advances to banks | | 29,334 | (19,483) |
| Loans and advances to clients | | (90,601) | (203,153) |
| Other assets | | 335 | 4,569 |
| Deposits from banks | | (3,437) | (3,431) |
| Deposits from clients | | 322,856 | 396,584 |
| Other borrowed funds | | (2,652) | (2,065) |
| Other liabilities | | 2,957 | (6,108) |
| | | **247,627** | **151,195** |
| Dividends received | 12 | 173 | 68 |
| Interest received | | 63,790 | 86,940 |
| Paid interest | | (1,949) | (1,081) |
| Tax paid on profit | | (3,200) | (2,530) |
| **Net cash flows from financial activities** | | **306,441** | **234,592** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (4,327) | (2,239) |
| Purchase of intangible assets | | (2,813) | (2,152) |
| Purchase of investment securities | | (468,922) | (80,823) |
| Proceeds from sale and maturity of investment securities | | 127,318 | 77,409 |
| **Net cash flows used in investment activities** | | **(348,744)** | **(7,805)** |

**For the year ended 31 December**

| *In BGN thousand* | App. | 2021 | 2020 |
|---|---|---|---|
| **Cash flows from financing activity** | | | |
| (Increase) in Right-of-use assets | | (9,288) | - |
| Increase in lease liabilities | | 9,346 | - |
| Lease principal payments | 22 | (2,712) | (3,493) |
| Lease interest payments | 22 | (53) | (42) |
| **Net cash flows used in financial activities** | | **(2,707)** | **(3,535)** |
| **Net (decrease)/increase in cash and cash equivalents** | | (45,010) | 223,252 |
| **Cash and cash equivalents at 1 January** | | 981,561 | 760,076 |
| Effect of currency revaluation of cash and cash equivalents | | - | (1,767) |
| **Cash and cash equivalents at 31 December** | 16 | **936,551** | **981,561** |

The statement of cash flows should be read in conjunction with the appendices on page37 to 164 that are an integral part of the financial statements. The financial statement was approved by the Management Board for publishing on 24 February 2022.

| | | |
|---|---|---|
| Georgi Zamanov | Evgeniya Aleksandrova | Lyuba Pavlova |
| *CEO* | *Procurator* | *Prepared by* |

According to the independent auditors' report

| | |
|---|---|
| PricewaterhouseCoopers Audit OOD | "HLB Bulgaria" OOD |
| Jock Nunan<br>*Procurator* | Dimitrios Papazis<br>*Manager* |
| Anna Boteva<br>*Registered Auditor, responsible for the audit* | Stoyan Stoyanov<br>*Registered Auditor, responsible for the audit* |

| *In BGN thousand* | **App.** | **Share capital** | **Statutory reserves** | **Retained earnings** | **Fair value reserve** | **Total** |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2020** | 33 | **69,000** | **9,850** | **148,086** | **8,599** | **235,535** |
| **Total comprehensive income for the year** | | | | | | |
| Profit for the year | | - | - | 8,241 | - | **8,241** |
| Other components of comprehensive income | | - | - | - | 1,000 | **1,000** |
| Defined benefit plans | | - | - | (26) | - | **(26)** |
| **Total comprehensive income for the year** | | **-** | **-** | **8,215** | **1,000** | **9,215** |
| **Transactions with shareholders** | | | | | | |
| Distribution of profits for dividends | | - | - | - | - | **-** |
| **Balance as at 31 December 2020** | 33 | **69,000** | **9,850** | **156,301** | **9,599** | **244,750** |
| | | | | | - | |
| **Balance as at 1 January 2021** | 33 | **69,000** | **9,850** | **156,301** | **9,599** | **244,750** |
| **Total comprehensive income for the year** | | | | | | |
| Profit for the year | | - | - | 17,326 | - | **17,326** |
| Other components of comprehensive income | | - | - | 1,057 | (5,574) | **(4,517)** |
| Defined benefit plans | | - | - | (62) | - | **(62)** |
| **Total comprehensive income for the year** | | **-** | **-** | **18,321** | **(5,574)** | **12,747** |
| **Transactions with shareholders** | | | | | | |
| Distribution of profits for dividends | | - | - | - | - | **-** |
| **Balance as at 31 December 2021** | 33 | **69,000** | **9,850** | **174,622** | **4,025** | **257,497** |

The statement of changes in equity should be read in conjunction with the appendices on page37 to 164 that are an integral part of the financial statements. The financial statement was approved by the Management Board for publishing on 24 February 2022.

| Georgi Zamanov | Evgeniya Aleksandrova | Lyuba Pavlova |
|---|---|---|
| *CEO* | *Procurator* | *Prepared by* |

According to the independent auditors' report

| PricewaterhouseCoopers Audit OOD | "HLB Bulgaria" OOD |
|---|---|
| Jock Nunan | Dimitrios Papazis |
| *Procurator* | *Manager* |
| Anna Boteva | Stoyan Stoyanov |
| *Registered Auditor, responsible for the audit* | *Registered Auditor, responsible for the audit* |

## 1. Legal status and ownership

Allianz Bank Bulgaria AD (the Bank) was registered in the Republic of Bulgaria, with a business address at: city of Sofia and management address: city of Sofia 1407, Lozenets district, 16 Srebarna Str. The Bank is a universal commercial bank and has a full banking license issued by the Bulgarian National Bank (BNB), on the basis of which it operates in all areas of banking in the country.

The ultimate parent and controlling entity of the Bank is Allianz SE, Germany. Direct majority owner of the Company is Allianz Bulgaria Holding AD.

### (a) Management

As at 31 December 2021, the management of the Bank, namely the Management Board, consists of five members, namely: Ioannis Kotsianos, Georgi Zamanov, Hristina Martsenkova, Lyuba Pavlova and Yordan Suvandzhiev.

As of Friday, December 31, 2021, the Bank's Supervisory Board consists of the following members: Dimitar Zhelev, Christoph Plaine, Raymond Seymour, Rainer Franz, Kay Müller and Eduard Gerardus Martin Gus.

The Bank has an Audit Committee that monitors the work of its external auditors, internal auditing, risk management and accounting and financial reporting.

As at 31 December 2021, the Audit Committee has the following composition: Stefan Stefanov, Kay Müller and Maksim Sirakov.

### (b) Structure of the Bank

As at 31 December 2021, the Bank has 60 structural units, including headquarters, 56 business centers, 3 small business centers located in 36 cities and towns within the country.

## 2. Preparation basis

The financial statements were approved for issue by the Management Board of the Bank on 24 February 2022. The Bank presents comparative information in these financial statements for one year back. The accounting policies have been applied consistently in the reporting years presented, unless explicitly stated otherwise. When necessary, comparative data are reclassified (and recalculated) to achieve comparability with changes in performance in the current year. The Bank presents its statement of financial position in the order of liquidity of the assets and liabilities.

This financial statement has been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the Interpretation Committee (IFRIC), applicable to companies reporting under the IFRC, adopted by the European Union (EU). IFRS adopted by the EU is the generally accepted designation of a generic framework for fair presentation equivalent to the definition of the framework introduced in paragraph 8, item 1of the Additional Provisions of the Accounting Act - International Accounting Standards (IAS)

## 3. Measurement Basis

The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and defined benefit plans at present value.

The financial statements have been prepared on a going concern basis.

## 3. Measurement basis (continued)

The preparation of financial statements in conformity with IFRS requires the application of specific accounting estimates. The Bank's management is required to make its own judgments and assumptions in applying the accounting policies. Items in the financial statements whose presentation requires a higher degree of subjective judgment, as well as those items for which estimates have a significant effect on the financial statements as a whole, are disclosed separately in Note 7.

## 4. Functional currency and currency of presentation

This financial statement is presented in Bulgarian currency (BGN), which is the functional currency of the Bank. All amounts are and rounded up to thousand, unless otherwise stated.

## 5. Significant accounting policies

### (a) Recognition of interest incomeand expense

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the one that accurately discounts the expected future cash payments and proceeds over the life of the financial asset or liability to the carrying amount of the asset or liability.

The calculation of the effective interest rate includes all fees and commissions received or paid which are an integral part of the effective interest rate. Transaction costs are intrinsic costs directly attributable to the acquisition and issue of a financial asset or liability.

Interest income and expense presented in profit or loss include:

- interest on financial assets and liabilities at amortized cost calculated using the effective interest method;
- interest on financial assets at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL).

### (b) Foreign currency transactions

Transactions in a foreign currency are stated in functional currency at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are stated in the functional currency at the closing exchange rate on the financial position statement drafting date.

Exchange rate differences arising from monetary items are the difference between the amortized cost in a functional currency at the beginning of the period, adjusted for effective interest and payments over the period, and the amortized cost in foreign currency translated at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are reported at fair value are translated into the functional currency at the rate at the date that the fair value was determined.

Exchange differences arising on the translation in the functional currency are recognized in profit or loss except for differences arising on the translation of available-for-sale equity instruments.

Since 1998 the exchange rate of the Bulgarian lev (BGN) has been fixed to Euro (EUR). The exchange rate is BGN 1.95583 / EUR 1.0.

## 5. Significant accounting policies (continued)

### (c) Fees and commissions

***IFRS 15*** *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The standard is based on the principle that revenue is recognized when the control of the good or service is transferred to the client.

IFRS 15 is only applicable to contracts where a contract counterparty is a party that can be identified as a customer in accordance with the requirements of the Standard.

Additionally, the standard provides guidance on accounting for certain costs of obtaining / performing the contract. Under IFRS 15, these costs are capitalized and should be recognized as an asset under contracts with customers only if they: (a) are made in relation to and pertain to a client contract that is within the scope of IFRS 15; (b) are not included in other IFRSs; and (c) are directly related to the contract, help generate resources for use in the course of the contract and are expected to be recovered.

*Revenue from fees and commissions*

The Bank realizes revenue from fees and commissions that are formed from performance and asset management. Fees and commissions revenue arises from:

- Cash transactions and cash transfers
- Guarantees and letters of credit
- Loans
- Bank cards
- Other

The management fees mentioned above are recognized when providing the services. Performance fees are recognized as revenue after the end of the respective reference period.

### (d) Net income from trade operations

Net trading income consists of gains less losses on assets and liabilities in trading portfolio and includes all realized and unrealized changes in fair value, interest, dividends and exchange differences.

### (e) IFRS 9 Financial instruments

***(i) Recognition, classification and valuation - financial assets***

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed as well as their cash flow characteristics.

IFRS 9 includes three principal classification categories of financial assets: at amortized cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not classified under FVPL:

**5. Significant accounting policies (continued)**

**(e) IFRS 9 Financial instruments( continued)**

***((i) Recognition, classification and measurement - financial assets (continued)***

- the financial asset is held in a business model whose purpose is to hold assets in order to collect the contractual cash flows; and
- According to the contractual terms of the financial asset, cash flows arise at specific dates, which are only payments on principal and interest on the outstanding amount of the principal.

A financial asset is measured at FVOCI if it meets both conditions and is not classified under FVPL::

- the financial asset is held within a business model that targets both the collection of contractual cash flows and the sale of financial assets; and
- According to the contractual terms of the financial asset, cash flows arise at specific dates, which are only payments on principal and interest on the outstanding amount of the principal.

Upon the initial recognition of an equity instrument that is not held for trading, the Bank may take an irrevocable decision to present subsequent changes in fair value in other comprehensive income. This decision is made for each particular investment. All financial assets that are not classified as measured at amortized cost or at FVOCI as described above are measured at FVPL. In addition, upon initial recognition, the Bank may take an irrevocable decision and designate a financial asset that otherwise qualifies for measurement at amortized cost or at FVOCI, as measured at FVPL. if this would remove or reduce substantially the accounting mismatch, would have arisen.

Financial assets are classified in one of these categories at initial recognition.

*Assessment of business model*

The Bank will assess the purpose of the business model within which the financial asset is held at the portfolio level as it provides the best insight into how business is managed and how information is provided to management. The information to be considered includes:

- the policies and goals for the portfolio and the impact of these policies in practice, including whether the management strategy focuses on earning interest on contractual interest by maintaining a certain interest profile by comparing the term of the financial assets with the maturity of the liabilities that finance these assets , or on the realization of cash flows through the sale of assets;
- how the portfolio's performance is evaluated and reported to the management of the Bank;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed;
- how the compensation of managers is determined - e.g. whether the it is based on the fair value of the assets under management or the contractual cash flows collected; and
- the frequency, volume and moment of sales of financial assets in prior periods, the reasons for such sales and expectations of future sales. Sales information is not considered in itself, but as part of the overall assessment of how the entity's stated objective of managing financial assets and how cash flows are being met.

**5. Significant accounting policies (continued)**

**(e) IFRS 9 Financial instruments( continued)**

***(i) Recognition, classification and measurement - financial assets (continued)***

*Assessment of the business model (continued)*

Financial assets held for trading and those that are managed and whose results are measured at fair value will be measured at FVPL because they are neither held for the purpose of collecting contractual cash flows nor for the purpose of both collecting contractual cash flows and sales of financial assets.

*Estimating whether contractual cash flows are only principal and interest payments:*

For the purposes of this estimate, the "principal" is determined as the fair value of the financial asset at initial recognition. "Interest" includes the remuneration for the value of money over time and for credit risk associated with the outstanding principal amount over a certain period of time and for other major credit risks and costs (e.g. liquidity risk and administrative costs) and a margin of profit.

In assessing whether contractual cash flows are only principal and interest payments, the Bank examines the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual clause that could change the time or value of the contractual cash flows so that they do not meet this condition. In this assessment, the Bank examined:

- contingency events that would change the amount or timing of cash flows;
- characteristics of leverage;
- conditions for extension and early repayment;
- conditions that restrict the Bank's claims to cash flows from certain assets (such as non-regression features).
- characteristics that alter the return for the value of money over time - e.g. periodic recalculation of interest rates.

The interest rates of certain loans to individuals granted by the Bank are based on standard floating rates (SFRs), which are determined at the Bank's discretion.
The Bank will assess whether the SFR meets the IASB criterion by examining a number of factors, including:

- whether the borrower can repay early loans without significant penalties;
- whether market competition guarantees comparable interest rates between banks; and
- whether regulatory frameworks or consumer protection frameworks are in place that oblige banks to treat their customers fairly.

All loans provided by the Bank contain early redemption features. The early amortization feature meets the IASB criterion if the amount of early repayment is essentially the sum of the principal outstanding and the interest on the principal outstanding amount that may include reasonable compensation for early termination of the contract.

In addition, the early repayment feature is deemed to meet this criterion if the financial asset is acquired or created at a premium or a discount on the contractual nominal amount, the amount of the early repayment is essentially the contractual nominal amount plus the accrued (but not paid) contractual interest which may also include reasonable compensation for early termination), and the fair value of the early amortization provision is insignificant on initial recognition.

**5. Significant accounting policies (continued)**

**(e) IFRS 9 Financial instruments( continued)**

***(i) Recognition, classification and measurement - financial assets (continued)***

*Assessment of the business model (continued)*

All loans provided by the Bank contain early redemption features. The early amortization feature meets the IASB criterion if the amount of early repayment is essentially the sum of the principal outstanding and the interest on the principal outstanding amount that may include reasonable compensation for early termination of the contract.

In addition, the early repayment feature is deemed to meet this criterion if the financial asset is acquired or created at a premium or a discount on the contractual nominal amount, the amount of the early repayment is essentially the contractual nominal amount plus the accrued (but not paid) contractual interest which may also include reasonable compensation for early termination), and the fair value of the early amortization provision is insignificant on initial recognition.

***(ii) Impairment - financial assets, loan commitments and financial guarantee contracts***

IFRS 9 requires the application of a “expected credit loss” model. This requires substantial judgment on the way changes in economic factors are reflected in ECL, which is determined on a probability-weighted basis. The impairment model applies to the following financial assets which are not measured at FVPL:

- financial assets comprising debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts (before impairment was determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

According to IFRS 9, impairment losses are not recognized for equity securities.

IFRS 9 requires recognition of a correction of losses amounting to 12-month ECL and lifetime ECL of the instrument. Lifetime ECL for the instrument is ECL arising from all possible cases of non-performance throughout the expected duration of a financial instrument, and 12-month ECL is the part of ECL derived from cases of non-performance which may occur within 12 months after the reporting date.

The Bank will recognize a correction for lifetime ECL except in the following cases where the recognized amount will be a 12-month ECL:

- debt investment securities that have low credit risk as of the reporting date. The Bank believes that a debt security has a low credit risk when the credit risk is equivalent to the globally accepted definition of "investment grade"; and.
- other financial instruments (other than leases) for which the credit risk has not increased significantly since initial recognition.

Loss adjustments for lease receivables are always valued at an amount equal to ECL over the expected life of the instrument.

**5. Significant accounting policies (continued)**

**(e) IFRS 9 Financial instruments (continued)**

***(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)***

The impairment requirements of IFRS 9 are complex and require management appraisals, estimates and assumptions, especially in the following areas, which are discussed in detail below:
- assessing whether the instrument's credit risk has increased significantly since initial recognition; and
- inclusion of information for future periods in the evaluation of the ECL.

*Evaluation of ECL*

ECL is the probability-weighted estimated credit loss and will be determined as follows:
- *financial assets that do not have credit impairment at the reporting date:* the present value of the entire cash deficit - i.e.. the difference between the cash flows due under the contract and the cash flows that the Bank expects to receive;
- *financial assets that have credit impairment at the reporting date:* the difference between the gross carrying amount and the present value of the expected future cash flows;
- *unutilized credit commitments:* the present value of the difference between the contractual cash flows payable to the Bank if the commitment is utilized and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts:* the present value of the expected payments of compensation to the holder minus any amount the Bank expects to repay.

Financial assets that have credit impairment are determined using IFRS 9 similar to those that are impaired under IAS 39.

*Definition of default*

Under IFRS 9, the Bank shall assume a financial asset is in default when:

- the borrower is unlikely to fulfill its credit obligations to the Bank in its entirety, without recourse by the Bank to actions such as the realization of the collateral (if any); or
- the borrower is over 90 days in arrears for any credit liability to the Bank. Overdrafts are considered overdue when the customer exceeds the specified limit or has a limit lower than the current amount due.

The definition largely corresponds to the definition of regulatory objectives.

In assessing whether the borrower is in default, the Bank will report indicators that are:
- qualitative: e.g. breach of clauses;
- quantitative: e.g. overdue status and non-payment of other liabilities by the same issuer to the Bank;
- based on data received internally or externally.

Input information in the assessment of whether a financial instrument is defaulted and its significance may change over time to reflect changes in circumstances.

**5. Significant accounting policies (continued)**

**(e) IFRS 9 Financial instruments (continued)**

***(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)***

*Significant increase in credit risk*

Under IFRS 9, when assessing whether a credit risk (e.g. a default risk) of a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and reasoned information that is relevant and available without undue expense or effort, including qualitative and quantitative information; an analysis based on past experience, expert credit assessment and future information.

The Bank shall determine whether there has been a significant increase in the credit risk of a particular exposure mainly by comparing:
- the probability of default (PD) for the remaining term of the instrument at the reporting date; and
- the probability of default for the remaining duration of the instrument that was determined at the initial recognition of the exposure.

Assessing whether credit risk has increased significantly since the initial recognition of the financial instrument requires the determination of the date of initial recognition of the instrument. For certain revolving products (e.g. credit cards and overdraft), it may have been a long time since the date they were concluded. Modification of the contractual terms of the financial instrument may also influence this assessment as described below.

*Credit risk levels;*

The Bank shall determine the level of credit risk for each exposure based on a variety of data that is determined to predict the risk of default and applying credit based on experience. The Bank shall use these levels in determining the existence of significant credit risk increases under IFRS 9. Credit risk levels are defined by qualitative and quantitative factors that are indicative of the risk of default. These factors may vary according to the nature of the exposure and the type of borrower.

The credit risk levels are determined and calibrated so that the risk of default increases exponentially with the credit risk deterioration - e.g. the difference in default risk between credit risk level 1 and 2 is less than the difference between credit risk level 2 and 3.

For each exposure, a credit risk level at initial recognition will be determined on the basis of available information about the borrower. Exposures are subject to constant monitoring, which may lead to a shift of exposure to another level.
Credit risk levels are the main input in determining the time structure of the probability of default. The Bank shall collect information on the performance and non-performance of its exposures to credit risk, analyzed by jurisdiction, by product type and by the borrower, and by the level of credit risk. For some portfolios, information purchased from external credit information agencies can also be used.

The bank shall use statistical models to analyze the collected data and generate estimates of default probability for the remaining exposure period and how it is expected to change over time.

**5. Significant accounting policies (continued)**

**(e) IFRS 9 Financial instruments (continued)**

***(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)***

*Generating a term structure for probability of default*

This analysis involves identifying and calibrating the relationship between changes in default rates and changes in key macroeconomic factors as well as an in-depth analysis of the impact of certain other factors (e.g., the existence of restructuring) on the risk of default. For most exposures, key macroeconomic factors include:

- CPI – Inflation measured using the harmonized consumer price index, average annual change, (%).
- GDP - production method
- Unemployment – Unemployment rate, seasonally weighted data, monthly
- Interest rates

For exposures to certain industries and / or regions, the analysis expands to the relevant commodity and / or real estate prices. The Bank's approach to the inclusion of future information in this assessment is described below.

*Determining whether credit risk has increased significantly*

The Bank has defined a framework that includes both qualitative and quantitative information to determine whether the credit risk of a particular financial instrument has increased significantly since initial recognition. The framework is in line with the Bank's internal credit risk management process. The criteria for determining whether the credit risk has increased significantly varies according to the portfolio and includes a default mechanism. The Bank will consider the credit risk of a particular exposure substantially increased after initial recognition if, based on quality modeling performed by the Bank, the probability of default for the remaining time is determined to be increased after initial recognition under the accounting policy adopted. When assessing the increase in the credit risk, the ECLs are adjusted against the changes in maturity.

In certain cases, relying on expert judgment and, where possible, relevant past experience, the Bank may determine that a particular exposure has suffered a significant increase in credit risk if specific qualitative factors indicate this and these indices can not shall be fully and timely covered by the quantitative analysis. As a safeguard mechanism and in line with IFRS 9, the Bank will accept in advance that there is a significant increase in credit risk when the asset was past due for no more than 30 days. The Bank sets the days past due by counting the days after the earliest expired term against which no payment was received.

The Bank monitors the effectiveness of the criteria used to identify significant credit risk increases through regular reviews confirming that:

- - the criteria are capable of identifying significant increases in credit risk before exposures are defaulted;
- the criteria do not coincide with the time at which the asset becomes past due by 30 days;
- the average period between identifying a significant increase in credit risk and default seems reasonable;
- exposures in general are not transferred directly from the 12-month ECL to credit impairment;
- there is no unjustified volatility in the correction of losses from transfers between 12-month ECL and lifetime ECL of the instrument.

**5. Significant accounting policies (continued)**

**(e) IFRS 9 Financial instruments (continued)**

***(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)***

*Modified financial assets*

The contractual terms of credit may be modified for many reasons, including changes in market conditions, customer retention, and other factors that are not related to current or potential deterioration in the client's solvency. An existing credit, the terms for which it has been modified, may be derecognized and the renegotiated credit recognized as a new credit at fair value.

Under IFRS 9, when the condition of the financial asset is modified and the modifications do not lead to write-off, determining whether the credit risk of the asset has increased significantly reflects a comparison between:

- the probability of default for the remaining duration of the instrument on the basis of the modified conditions; with
- the probability of default for the remaining duration of the instrument on the basis of the data at initial recognition and the original contractual terms

The Bank renegotiates loans to clients who have financial difficulties (called "restructuring practices") in order to maximize the possibilities for collecting claims and to minimize the risk of default. Under the Bank's Restructuring Policy, this is allowed selectively if the debtor is currently in default or if there is a high risk of default if there is evidence that the debtor has made all reasonable efforts to pay according to the original contractual terms and conditions expects the debtor to be able to comply with the revised terms.

Renegotiated terms typically include extending maturity, changing interest payment times, and changing loan terms. Both corporate and corporate loans are subject to restructuring. The Bank's Credit Committee frequently reviews the restructuring reports.

For financial assets modified as part of the Bank's Restructuring Policy, the probability of default will reflect the extent to which the modification has improved or restored the Bank's ability to collect interest and principal and prior experience with the Bank in respect of such restructuring activities. As part of this process, the Bank will assess the performance of the borrower's payments under the modified contractual terms and consider different behavioral indicators.

Overall, restructuring is a qualitative indicator of default and credit impairment, and expectations of restructuring are relevant in assessing whether there is a significant increase in credit risk. After the restructuring, the client must demonstrate a regular payer's behavior for a certain period of time before the exposure ceases to be considered a default / credit impairment, or the probability of default has declined so that the loss correction is again measured in the 12-month ECL.

**5. Significant accounting policies (continued)**

**(e) IFRS 9 Financial instruments (continued)**

***(ii) Impairment - financial assets, loan commitments and financial guarantee contracts (continued)***

*Input information for the estimation of ECL*

The key input to the estimation of ECL includes the term structure of the following variables:

- Probability of default (PD)
- Loss given Default (LGD); and
- Exposure at Default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that affect regulatory models. They will be adjusted to reflect future information as described below.

PD estimates are estimates at a certain date that will be calculated based on statistical rating models and will be evaluated using rating instruments tailored to different categories of counterparties and exposures. These statistical models will be based on internally compiled data containing qualitative and quantitative factors. Where available, market data can also be used to determine PD for large corporate counterparties. If a counterparty or exposure migrates between categories, this leads to a change in the PD estimate. PDs are calculated in terms of contractual maturities of the exposures and the expected repayment rates.

The LGD is the amount of the alleged loss given default. The Bank determines the parameters of LGD based on the history of the level of recovery of receivables from non-performing counterparties. LGD models take into account the structure, collateral, order of receivables, counterparty industry, and collateral security costs that are part of the financial asset. For loans secured by commercial property, the credit value / collateral value coefficients will be a key parameter in the determination of LGD. LGD estimates are calibrated for different economic scenarios and for real estate loans to reflect possible changes in property prices. They are calculated on the basis of discontinued cash flows using the effective interest rate for the discount rate. EAD is the expected exposure in the event of a default.

The Bank determined the EAD from the current exposure to the counterparty and the potential changes in the current amount authorized under the contract, including amortization and early repayment. The EAD of the financial asset will be the gross carrying amount at the default date. For credit commitments and financial guarantees, the EAD recognizes the amount utilized, as well as potential future amounts that may be utilized or repaid under the contract that will be provided on the basis of past and forward looking observations. For some financial assets, the Bank may designate an EAD by modeling the set of possible exposure outcomes at different times in time using scenarios and statistical techniques.

As described above, and provided that maximum 12 month PD is used for financial assets whose financial risk has not increased significantly, the Bank assesses the ECL by considering the default risk for the maximum duration of the contract (including the possibility of prolongation on the part of the borrower) for which he is exposed to credit risk, even if the Bank considers a longer period for the purposes of risk management. The maximum term of the contract extends to the date on which the Bank is entitled to request repayment of the advance or to terminate a credit commitment or guarantee.

## 5. Significant accounting policies (continued)

### (e) IFRS 9 Financial instruments, (continued)

***(ii) Impairment - financial assets, loan commitments and financial guarantee contracts ,(continued)***

*Input information for the estimation of ECL (continued)*

For consumer overdraft and credit cards and certain corporate revolving products that include credit and commitment for undrawn amounts, the Bank assesses the ECL for a period longer than the maximum term of the contract if the Bank's contract law requires repayment or cancellation of the uncommitted commitment limits the exposure of the Bank to credit losses up to the contractual period of notice. These products do not have a fixed term or repayment structure and are managed collectively. The Bank may cancel them with immediate effect, but this right does not apply to normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the product level. The longer period will be assessed taking into account the credit risk management measures that the Bank intends to undertake to reduce the ECL. These include lowering the limit and canceling the product.

When modeling a particular parameter is done collectively, the financial instruments will be grouped on the basis of common risk characteristics that include:

- instrument type
- credit risk level;
- type of collateral;
- value of the loan / collateral value;
- date of initial recognition,
- remaining time to maturity;
- branch; and
- geographical location of the borrower.

Grouping is subject to regular review in order to ensure that exposures in a given group remain homogeneous.

For portfolios for which the Bank has limited past performance data, external reference information will be used to supplement available internal data.
Portfolios for which the external reference information represents a significant input in the evaluation of the ECL are:

| | **External reference benchmarks used** | |
|---|---|---|
| | **PD** | **LGD** |
| measured at amortized cost (AMORTCOST) | Studies by Fitch, S & P and other licensed agencies on default | Studies by Fitch, S & P and other licensed agencies on default |
| Reported at fair value through other comprehensive income (FVOCI); | Studies by Fitch, S & P and other licensed agencies on default | Studies by Fitch, S & P and other licensed agencies on default |

**5. Significant accounting policies (continued)**

**(e) IFRS 9 Financial instruments, (continued)**

***(ii) Impairment - financial assets, loan commitments and financial guarantee contracts ,(continued)***

*Information for future periods*

Under IFRS 9, the Bank will include future-time information, both in its assessment of whether the credit risk of a particular instrument has increased significantly after initial recognition and in the evaluation of the ECL. The Bank will formulate a "baseline scenario" for the future development of the relevant economic variables and a representative set of other possible scenarios based on an opinion from the Bank's Risk Committee and economic experts and a variety of up-to-date and forecasted external information. This process will involve developing two or more additional economic scenarios and considering the relative probabilities of each result.

External information may include economic data and forecasts published by state and monetary authorities, superstate organizations such as the Organization for Economic Cooperation and Development and the International Monetary Fund, and selected experts from the private and academic sector.

The baseline scenario will represent the most probable outcome and will be consistent with the information used by the Bank for other purposes, such as strategic planning and budgeting. Other scenarios will be more optimistic and more pessimistic. The Bank will also perform periodic stress tests for more extreme shocks to calibrate the determination of these different representative scenarios.

The Bank has identified and documented key credit risk factors and credit losses for each portfolio of financial instruments, and using historical data analysis, has roughly estimated the relationship between macroeconomic variables and credit risk and credit losses. These key factors include interest rate, unemployment rates and GDP projections. The projected relationships between key indicators and default and loss levels of different portfolio of financial assets have been developed on the basis of data analysis for the past 5 years.

The economic scenarios used were approved by the Bank's Management Board.

***(iii) Classification - financial liabilities***

According to IFRS 9, the changes in fair value will be presented as follows:

- the portion of the change in fair value that is due to changes in the credit risk of the liability is reflected in other comprehensive income,
- the rest of the change is reflected in profit or loss.

The Bank recognizes its financial liabilities at amortized cost.

***(iv) Deletion and modification of contracts***

The Bank derecognizes a financial asset when the contractual rights to cash flows from the financial asset expire or when it transfers the rights to receive the contractual cash flows from the financial asset to a transaction in which all significant risks and rewards of ownership of the financial asset are transferred. Every participation in transferred financial assets, which was created or kept by the Bank, is recognized as separate asset or liability.

**5. Significant accounting policies (continued)**

**(e) IFRS 9 *Financial instruments, (*continued)**

***(iv) Deletion and modification of contracts (continued)***

The Bank derecognizes a financial liability when its contractual obligations are fulfilled, canceled or when they expire. The Bank carries out transactions that transfer assets recognized in the statement of financial position but retain all or all of the material risks and rewards of the transferred assets or part of them. If some or all of the material risks and rewards are retained, the transferred assets are not derecognized from the statement of financial position. Transferring assets with retaining some or all of the material risks and gains are, for example, securities lending or repurchase transactions.

When a third party sells swap assets with a uniform total return on the transferred assets, the transaction is accounted for as a secured financial transaction similar to a repurchase transaction.

For transactions in which the Bank neither retains nor transfers all material risks and gains from the possession of a financial asset, it derecognizes the asset if it does not retain control over it. Rights and obligations retained in the transfer are separately recognized as assets and liabilities respectively.

For transactions that retain control of the asset, the Bank continues to recognize the asset to the extent of its interest, depending on how exposed it is to changes in the value of the transferred asset.

In certain transactions, the Bank retains its obligation to service the transferred financial asset for consideration. The transferred asset is derecognized entirely if it meets the derecognition criteria.

The asset or liability is recognized in the service contract depending on whether the service charge is more than sufficient (asset) or less than sufficient (liability) to perform the service.

***(v) Offset***

Financial assets and liabilities are offset and the net amount is recognized in the statement of financial position when and only when the Bank has a legally enforceable right to offset the recognized amounts and intends to settle the asset and liability on a net basis.
Income and expense are presented in net only in the cases permitted by accounting standards or by gains and losses that arise from a group of similar transactions such as those arising from the Bank's operations.

***(vi) Capital planning***

The main impact on the Bank's regulatory capital s from the application of IFRS 9 shall result from the new impairment requirements.

Under the current regulatory requirements, impairment losses are treated differently depending on whether a particular portfolio falls within the IRB or Standardized Approach.

**5. Significant accounting policies (continued)**

**(e) IFRS 9 Financial instruments (continued)**

***(vi) Capital planning (continued)***

The Bank applies a standardized approach. The capital requirement is calculated on the basis of the gross exposure, net of specific provisions - i.e.. net exposure. IFRS 9 increases write-downs related to individual assets, therefore the net exposure and the capital requirement will be reduced. However, this reduction in the capital requirement is exceeded by the increased loss adjustments under IFRS 9 of the capital resources.

***(viii) Measured at amortized cost***

The amortized cost of a financial asset or liability is the amount by which a financial asset or liability is measured at initial recognition minus principal repayments plus or minus cumulative amortization using an effective interest rate for the difference between the initially recognized amount and the amount of the maturity minus the cost for impairment.

***(ix) Principles of fair value measurement***

Fair value is the price that would be received from the sale of an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date on the main market for the Bank or in the absence thereof, in the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects the risk of breach of an obligation. Whenever possible, the Bank shall measure the fair value of an instrument using quoted prices in an active market for that instrument. The market is considered as active when the transactions for the asset or liability are executed with enough frequency and volume so that it allows the provision of actual information on prices. If there is no stock market price in an active market, valuation techniques are used (such as discounted cash flows and comparison with similar instruments) by maximally using appropriate observable inputs and minimizing the use of observable ones. The chosen valuation technique covers all the factors that market participants would take into account when pricing the deal.

The best evidence of a fair value of a financial instrument at initial recognition is the price of the transaction (i.e. the fair value of the remuneration received or given). If the Bank determined that the fair value at initial recognition differs from the transaction price and there is no evidence of fair value through stock exchange price of a similar asset or liability, either it is based on a valuation technique that uses data from observable markets, then the financial instrument initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, the difference is recognized in profit and loss rescheduled of an appropriate basis for the life of the instrument, but no later than the time when the assessment can be entirely supported by observable market data or transaction is completed.

The fair value of a call deposit is not less than the amount due on demand deducted from the original date on which the deposit may become chargeable. The Bank shall disclose the transfer between the levels in the fair value hierarchy at the end of the reporting period of the change occurrence.

**5. Significant accounting policies (continued)**

**e) Financial assets measured amortized cost**

A financial asset is measured at amortized cost if compliant with the requirements:

- the financial asset is held in a business model whose purpose is to hold assets in order to collect the contractual cash flows; and
- under the contractual terms of the financial asset at specific dates
- cash flows arise, which are only principal payments
- and interest on the outstanding amount of the principal.

This group includes loans, purchased bonds, deposits with banks and other forms of debt financing held by the bank that are held for the purpose of obtaining the contractual cash flows;

**(g) Financial assets reported at fair value through other comprehensive income (FVTPL);**

Financial assets are held within a business model that targets both the collection of contractual cash flows and sales of financial assets, and according to the contractual terms of financial assets at specific dates, cash flows arise, which are only principal and interest payments on the outstanding principal amount.

This group includes debt instruments measured at fair value in other comprehensive income and equity instruments without subsequent reclassification of changes in the deferred income statement

**(h) Financial assets reported at fair value through profit and loss (FVPL)**

All other financial assets that are not classified in the above two categories are measured at fair value through profit or loss of debt instruments measured at fair value through profit or loss.

Depending on the classification of the financial assets, for the purpose of their subsequent measurement, the differences arising from the change in their value are recognized in profit or loss or other comprehensive income. Recognition of differences from the subsequent evaluation is performed only on assets that are measured at fair value. In summary, the subsequent evaluation of financial assets is presented in the following table

| **Categories of financial assets** | **Subsequent evaluation** | **Recognition of differences of subsequent evaluation** |
|---|---|---|
| Financial assets, measured at amortized cost | Amortized cost | The value of the asset is sequentially brought to its amortized cost at cost |
| Financial assets measured by fair value through other comprehensive income | Fair value | In other comprehensive income |
| Financial assets evaluation at fair value through profit and loss. | Fair value | in profit and loss |

**5. Significant accounting policies (continued)**

**(h) Financial assets reported at fair value through profit and loss (FVPL) (continued)**

The Bank has not reclassified FVTPL assets in other categories during the reporting period.

**(i) IFRS 16 Leases**

***(i) Leases - the Bank as a lessee***

Leases are recognized as an asset with a right of use and, accordingly, a liability on the lease on the date that the leasing asset is available for use by the Bank. Each lease payment is apportioned between the lease liability and the financial cost. Financial expenses are accrued in profit or loss during the lease term so that a constant periodic interest rate is payable on the balance of the liability for each period. The right-of-use asset is depreciated over the lease term using the straight-line method.

A right-of-use asset is presented separately in the statement of financial position., except for right-of-use assets that meet the requirements for classification as investment property, which are also presented in the statement of financial position on a separate line - “investment properties ”.

Assets and liabilities arising from a lease are initially measured at their present value. Leasing liabilities include the net present value of the following lease payments:

- fixed payments, net of receivables on incentives received;
- variable lease payments, which are determined on the basis of an index or percentage;
- amounts expected to be payable by the lessee in the form of residual value guarantees;
- the purchase price if the lessee is reasonably certain that this option will be exercised, and
- lease termination penalty payments if the lease term reflects the lessee's ability to exercise this option.

Lease payments shall be discounted at the rate of interest set out in the lease if that rate can be directly determined. If this rate cannot be directly determined, the Bank uses the differential interest rate. This is the percentage that the Bank would have to pay to borrow for a similar period of time and with similar collateral the funds needed to obtain an asset of similar value to an asset with a right to use in a similar economic environment.

Each lease payment is apportioned between the lease liability and the financial cost. Subsequently, the lease liabilities are valued using the effective interest method. The carrying amount of the lease liability is remeasured to reflect revaluations or changes to the lease, or to reflect the substantially adjusted lease payments.

The lease term is the irrevocable period for which the lessee has the right to use the underlying asset; the periods in respect of which there is an option to extend or terminate the lease, if it is reasonably certain that the lessee will exercise that option.

Right-of-use assets are initially measured at cost, which includes:

- the value of the initial assessment of the lease liability;
- lease payments made before or on the date of the lease occurrence, less lease incentives received;
- any initial direct costs associated with the lease, and
- leasing reimbursement costs.

**5. Significant accounting policies (continued)**

**(i) IFRS 16 Leases (continued)**

***(i) Leases - the Bank as a lessee (continued)***

Subsequently, the eligible assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and are adjusted for any revaluation of the lease liability due to a revaluation or change in the lease. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Payments related to short-term leases and leasing of low-value assets are recognized as an expense on a straight-line basis over the term of the lease in the statement of comprehensive income. The Bank considers the possibility of derecognition in respect of the lease of low value assets for each lease separately. When an asset is acquired through a lease agreement, it is recognized as an asset with a right to use and a lease liability. For all other low-value asset leases, the lessee recognizes the related lease payments as an expense on a straight-line basis over the lease term. Short-term leases have a term of no more than 12 months and include rents of parking spaces and ATMs, IT equipment and others.

***(ii) Lease activity of the Bank***

The Bank leases various assets (administrative offices and buildings, computer equipment and cars), other small equipment. Lease contracts are concluded on an individual basis and contain a wide range of conditions. The main characteristics of leases are summarized below:

- Offices and buildings are leased for specific periods of 1 to 10 years, with terms determined individually. Contracts may contain clauses for renewal and / or early termination of the lease. Lease payments are usually fixed, and in some cases price indexation clauses are negotiated under certain conditions. Annexes are signed for the changes under the initially agreed conditions.
- Vehicles are leased for a fixed period of 1 year with the possibility of extension.
- Computer equipment is leased for a fixed period of 2 years.

Leases do not have covenants, but leased assets cannot be used as collateral for loans.

***(iii) Extension and termination options***

A number of the Bank's leases include options for extension and termination. They are used to provide maximum operational flexibility with respect to the management of the assets used in the Bank's operations. For significant accounting estimates and judgments in determining the lease term, please see Appendix 7..

***(iv) Short-term leases***

The Bank has short-term leases for buildings, vehicles and equipment and expenses are recognized on a straight-line basis over the reporting period. The total value of short-term leases is presented in Appendix 38. The total amount of the Bank's liabilities under short-term leases is BGN 179 thousand. (as at 31.12. 2020 – BGN 171 thousand).

***(v) Leases - the Bank as a Lessor***

When the Bank is the lessor under a lease under which a significant portion of the risks and rewards of ownership of an asset is transferred to the lessee, a finance lease is recognized and a net investment made by the Bank is reported and shown in loans and receivables.

**5. Significant accounting policies (continued)**

**(j) Loans and advances**

Loans and advances are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market and which the Bank does not intend to sell immediately or in the near future.

Loans and advances to banks are classified as loans and receivables. Loans and advances to clients include:

- those classified as loans and receivables;
- receivables under a finance lease
- receivables under factoring contracts;
- receivables under cash pool agreements.

Loans and advances are initially recognized at fair value, including the initial direct cost of acquiring the assets. Upon subsequent evaluation, loans and advances are stated at amortized cost on an effective interest rate basis.

When a bank acquires a financial asset and simultaneously concludes a reverse repurchase agreement (or similar instrument) at a fixed price at a future date (reverse repurchase agreement), the agreement is accounted for as a loan or advance and the asset subject to collateral is not recognized in the statement of financial position.

**(k) Receivables under factoring contracts**

Factoring is a transfer of one-off or recurring claims arising from the supply of goods or the provision of services. Receivables arising from factoring include non-derivative financial assets with fixed or determinable payments that are not traded on an active market. The Bank recognizes its receivables on factoring depending on the extent of the risks and rewards of ownership of the transferred asset.

In the case of a factoring contract without regression, the contract client transfers substantially all the risks and rewards of ownership of the financial asset to the Bank. In this case, the Bank recognizes and reports in the financial statements the transferred receivable in its entirety as a financial asset.

Under a factoring agreement with regression, the risk of the transferred asset is retained by the client under the contract. The transfer of the claim in this case is not a sufficient condition for the derecognize \the financial instrument sold to the client under a factoring contract. At the Bank, receivables under factoring agreements with regression are recognized and recognized in the financial statements up to the amount of the amount paid, representing an advance to the clients with whom factoring contracts have been concluded. Upon initial recognition of the receivables, the Bank assesses them at their fair value, including the costs directly attributable to the acquisition of the financial asset. In the reporting year 2021, the Bank has concluded domestic and export factoring contracts with and without regression.

The subsequent evaluation of claims depends on the original term of the factoring contract. If it is greater than a year, the receivable is measured at amortized cost using the effective interest method. For factoring contracts with a term of up to one year, as is customary practice, no amortized cost is applied, as this method has no significant effect in shorter terms. At each reporting date, receivables are impaired on a simplified basis. Undrawn limits on factoring contracts with regression are not recognized as a financial asset in the Bank's financial statements and are reported off-balance sheet.

## 5. Significant accounting policies (continued)

### (l) Property, plant and equipment

Property, plant and equipment are reported in the statement of financial position at their cost less accumulated depreciation and impairment losses.

Profit and losses from sale of property, plant and equipment are recognized in profit or loss.

Depreciation is accrued based on the straight line method, according to set norms for the purpose of the full depreciation of the value of property, plant and equipment for the expected period of use. The following are the annual depreciation rates used:

| **Assets** | **%** |
|---|---|
| Buildings | 4 |
| Property, plant and equipment | 20-30 |
| Computers and computer equipment | 20-50 |
| Fixtures and fittings | 10 |
| Motor vehicles | 25 |

Assets are not depreciated until they are put into operation and / or transferred from the cost of acquiring fixed assets in the relevant asset category.

The depreciation methods, the useful life and the residual values of property plant and equipment are reassessed at each reporting date and should be corrected if appropriate.

### (m) Intangible assets

Intangible assets acquired by the Bank are presented at cost, less the accrued depreciation and impairment loss.

Expenditure on internally generated intangible assets is recognized as an asset when the Bank demonstrates the ability to complete the asset, its use results in future economic benefits, and its value can be reliably measured.

Subsequent costs are capitalized only when they increase the future economic benefit of the specific asset to which they relate. All other future expenses are recognized as expenses as they are incurred.

Depreciation is calculated on the basis of the straight-line method over the expected useful life. The following are the annual depreciation rates used:

| **Intangible assets** | % |
|---|---|
| Software and licenses | 10-50 |
| Other fixed intangible assets | 10 |

The depreciation methods, the useful life and the residual values of intangible assets are reassessed at each reporting date and should be corrected if appropriate.

### (n) Impairment of non-financial assets

The reporting amounts of the Bank's non-financial assets are reviewed at each reporting date in order to determine whether there are indications of impairment. If such indications exist, an estimate of the recoverable amount of the asset is made.

**5. Significant accounting policies (continued)**

**(n) Impairment of non-financial assets (continued)**

For the purpose of the impairment test, assets that can not be tested individually are grouped together into the smallest possible group of assets generating cash proceeds from continuing use that are largely independent of the cash receipts from other assets or cash-generating unit (CGU).

The recoverable amount of an asset or a CGU is the higher of its value in use and its fair value less costs to sell. When assessing the value in use, future cash flows are discounted to their present value using a pre-tax discount rate reflecting current market assessments, time money, and asset- or CGU-specific risk. An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount.

The impairment losses are recognized in profit and loss. They are allocated first to reduce the value of the goodwill allocated to the CGU and subsequently to reduce the carrying amount of the assets part of the CGU.

**(o) Deposits and other borrowed funds**

Deposits from customers and banks and attracted funds from public funds are the sources of the Bank to finance loans and advances. When the Bank sells a financial asset and simultaneously concludes a repurchase agreement for that (or similar) asset at a fixed price at a future date ("repo"), the agreement is accounted for as a deposit and the principal asset continues to be recognized in the Bank's financial statements. Deposits and other borrowings are initially measured at fair value, including directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method.

**(p) Provisions**

A provision is recognized in the statement of financial position when there is a present legal or constructive obligation as a result of past events and it is probable that an outflow of cash that can be reliably measured will be required to repay it. Provisions are determined by discounting future cash flows at a pre-tax discount rate that reflects the current market valuation of the time value of money and the specific risks for the respective liability.

**(q) Income tax**

The tax expense includes current and deferred taxes. It is recognized in profit or loss except when it pertains to items recognized directly in equity or in other comprehensive income. Interest and income tax losses, including uncertain tax procedures, are reported in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

***(i) Current taxes***

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and all correction to tax liabilities or receivables for previous years. The amount of the current tax liability or receivable is the best estimate of the amount of tax that is expected to be paid or received that reflects the income tax uncertainties.

**5. Significant accounting policies (continued)**

**(q) Income tax( continued)**

***(ii) Deferred taxes (continued)***

Deferred tax are recognized on temporary differences between the amounts of assets and liabilities recognized in the financial statements and the amounts used for taxation purposes. Deferred tax are not recognized for:

- temporary differences on initial recognition of assets and liabilities in a transaction that is not a business combination and that affects profit or loss, neither accounting nor taxable;
- temporary differences relating to investments in subsidiaries and jointly controlled entities, as much as the Bank can control in time the reversal of the temporary differences and it is likely that they will not reverse in the foreseeable future.

Deferred tax assets shall be recognized for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and reduced as long as future profits are unlikely to be realized and such rebates are restored when the probability of future taxable profits improves.

In the determination of current and deferred tax the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may have been due. The Bank believes that the accruals for taxation liabilities are adequate for all open tax years based on the assessment of many factors, including interpretations of tax law and prior experience. This assessment is based on estimates and assumptions and may involve judgments about future events. It is possible new information becomes available whereby the Bank to change its judgment on the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination be made.

Deferred tax is measured at the tax rates expected to apply to temporary differences when they occur back, based on laws that were in force or were essentially the reporting date.

The deferred tax assets and liabilities are compensated only if there is a legal basis for deduction of current tax assets and liabilities, and they relate to income taxes imposed by the same taxation authority.

**(r) Staff benefits**

***(i) Short-term employee benefits***

Payables for short-term employee benefits are recognized as an expense when related services are provided. A liability is recognized for the amount that is expected to be paid if the Bank has a legal or constructive obligation to pay that amount as a result of past service provided by an employee and the liability can be measured reliably.

***(ii) Defined contribution plans***

Contributions to defined contribution plans include contributions to government institutions and statutory pension funds managed by private management companies according to legal requirements or individual choice. The obligation to transfer contributions to defined contribution plans is recognized as an expense when the related services are provided.

## 5. Significant accounting policies (continued)

### (r) Staff benefits (continued)

#### *(iii) Defined payment plans (continued)*

The Bank's obligation for defined benefit plans is limited to the statutory requirements for paying employees between two and six months of retirement depending on their length of service. The amount of the liability that the employee will receive is determined by his remuneration in previous and current periods, this amount being discounted at an appropriate discount rate, which represents the yield of bonds that have an appropriate credit rating and a maturity approximating the term of the Bank's obligation; which are denominated in the currency of the liability.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected credit unit method. The Bank sets the net interest rate on the net defined benefit obligation net of the defined benefit plan using the discount rate used at the beginning of the period to discount the liability to a net defined benefit plan liability.

Revaluations arising from defined benefit plans are actuarial gains and losses that are recognized in other comprehensive income. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

### (s) Assets acquired from collateral

Assets acquired from collateral are reported at their lower cost and net realizable value. Costs include costs of acquiring the asset, state fees for private enforcement agents, etc.

Net realizable value is the presumed selling price less the estimated costs necessary to realize the sale.

### (t) New and amended standards adopted by the Bank

The Bank has applied the following standards and amendments for the first time for its annual reporting period beginning on Friday, January 1, 2021:

**Amendment to IFRS 4 Insurance Contracts - deferral of IFRS 9** (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2021);

**Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform - Phase 2** (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021);

**Amendment to IFRS 16 Leases - COVID-19-Related Rent Concessions** (issued on 31.03.2021 and effective for annual periods beginning on or after 1 April 2021)

All changes in the adopted standards have no impact on the amounts recognized in prior periods and are not expected to have a significant impact on current or future periods.

### (u) New standards and interpretations which have not yet been applied by Bank

Certain new accounting standards and explanations have been published as non-mandatory for the reporting period as at 31 December 2021 and have not been previously adopted by the Bank. The Bank's assessment of the impact of these new standards and interpretations is set out below.

**5. Significant accounting policies (continued)**

**(u) New standards and interpretations which have not yet been applied by Bank (continued)**

**Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual improvements to IFRS - Cycle 2018-2020** (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022)

There are no other standards that are not yet adopted and which are expected to have a significant impact on the Bank during the current or future reporting period as well as in prospective future transactions.

*(x)* **New standards, clarifications and amendments not yet adopted by the EU**

**IFRS 17 Insurance Contracts** (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023), including Amendment to IFRS 17 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023)

**Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current — Deferral of Effective Date** (issued on 23 January 2020 and 15 July 2020 respectively and effective for annual periods beginning on or after 1 January 2023)

**Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies** (issued on 12 February 2021, effective for annual periods beginning on or after 1 January 2023).

**Amendment to IFRS 8 Accounting policies, Changes in Accounting Estimates and Errors**: issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023);

**Amendments to IAS 12 Income Taxes** (issued on 7 February 2021 and effective for annual periods beginning on or after 1 January 2023)

**6. Disclosure of the financial risk management policy**

**(a) Introduction and general**

The Bank is exposed to the following types of risk in its operations with financial instruments:
- credit Risk
- liquidity risk
- market risk
- compliance with capital adequacy requirements

This appendix provides information about the Bank's exposures to each of the financial risks, the Bank's purposes, policies, and processes to measure and manage these risks.

## 6. Disclosure of the financial risk management policy, continued

### (a) Introduction and general (continued)

*General provisions of risk management*

The Management Board is responsible for the preparation and implementation of the Bank's risk management general position. The Management Board selects the Asset and Liability Management Committee and the Risk Committee (RICO), which are responsible for the preparation and monitoring of the Bank's risk management policies in their specific areas.
The Bank's risk management policies are designed to identify and analyze the risks faced by the Bank to provide appropriate risk and control limits and to observe compliance with these limits. The policies and systems for risk management are reviewed periodically in order to reflect changes on the market conditions, products and services offered.

The Specialized Internal Audit Service division monitors whether applied risk management policies are in compliance with the Bank's risk management policies, and also the extent to which the general principles of management match the acceptable risk for management.

### (b) Credit Risk

When performing commercial operations, credit and investment activity, and also in cases where it plays the role of an intermediary on behalf of clients or other organizations and in its capacity as guarantor, Allianz Bank Bulgaria AD is exposed to credit risk.

Concentration of credit risk arises mainly depending on the sector of activity and the type of clients. There is also a risk of significant concentration of credit risk on financial instruments in counterparties with similar economic characteristics for the Bank, and therefore changes in economic and other conditions would have a similar effect on their ability to meet their contractual obligations .

***Credit risk management***

The Management Board of the Bank delegates the responsibility for managing the credit risk of the Executive Officers of the Bank, Credit Risk Division, Risk Control and Reporting Division, Non-Performing Loans Division, Large Corporate and International Clients Directorate, Corporate Banking Division, Retail Banking Division, Sales Control Division and the Bank’s Credit Board.

The Management Board of the Bank formulates credit policies with the support of business units, taking into account the collateral, credit risk, valuation and legal requirements for documentary and legal justification. The Bank's Management Board determines the amount of competence to approve and renew credit transactions. Credit Risk Division prepares an opinion with a credit risk assessment for all credit exposures that exceed certain limits.

After issuing a credit risk assessment opinion, credits are submitted for review and approval by the bank's competent authority.

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

***Credit risk management, (continued)***

Qualitative assessment is based on evaluation of indicators such as company history and ownership, management, credit history, professional experience, sectoral analysis, environmental assessment, etc. The Bank implements specialized software (Litis-POD) to generate a behavioral scoring model based on the borrower's credit history for corporate clients and individuals. Behavioral scoring is prepared for every individual and legal entity. As a factor in the specialized software of the bank was implemented the internal corporate rating model (MicroCap) and application scoring (Critesis).

The application rating is established based on a quantitative assessment (financial scoring) and a qualitative assessment of the borrower and his/her related persons. Financial scoring is calculated based on the latest available annual financial statements and calculation of the main financial ratios for the respective reporting period.

The Risk Control and Reporting Department performs "back testing" of the impairment model at least once a year. The distribution, the significance of the Kolmogorov-Smirnov coefficient and the Gini coefficient, as well as the achieved levels of default rates, are compared with the predictions (limits of the rating intervals). Any change in the structure of the model that results in a change in the individual credit ratings of the borrowers is approved by the Bank's RICO.

The Bank has implemented a dedicated Product Delivery System (PD) that covers the entire business process of the Retail Banking business, from the submission of the loan application, the processing of the request, the decision making, the signing of the loan agreement to the loan utilization. The system is designed to have separate modules for each product (mortgage loans, consumer credits, credit cards, etc.), with a separate set of indicators for each module. The system calculates a rating for credit risk assessment.

The Bank's Management board approves at the beginning of each calendar year and reviews the concentration of exposures by credit programs, sectors, sectors, types of clients, loan amount, maturity, etc., as well as issuers, credit rating, liquidity and state (for investment securities books).

The Credit Risk, Monitoring and Provisioning Department and the Restructuring - Centralization Department are responsible for managing the Bank's credit risk in respect of the review, assessment and classification of the Bank's risk exposures, depending on the allowed delay of due liabilities, according to the terms set in the Bank legislation and assessment of the debtor's financial condition and the sources of payment of his obligations, focusing the management's attention on the risk under consideration.

The Credit Risk, Monitoring and Provisioning Department performs a periodic review of the compliance of the business centers / financial centers with their credit limits, in compliance with the Bank's Rules and Procedures for Credit Activity. Periodic reports on the results of inspections and the quality of local portfolios are provided to the Executive Directors of the Bank. The Bank carries out ongoing monitoring, including an analysis of the debtor's financial position, depending on the amount of the total credit exposure of the borrower and the related parties, as follows: at least once a year for all exposures and extraordinary monitoring in case of risk change.

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

***Credit risk management, (continued)***

The bank monitors the value of accepted collateral real estate periodically - for commercial real estate at least once a year, and for residential real estate once every three years. The Bank also monitors more frequently when significant changes occur in market conditions. Accepted collateral for risk exposures in default are reassessed at least once a year. The collateral is revalued by an independent valuer by determining net realizable value. For loans exceeding EUR 3 million or 5% of the Bank 's equity, the valuation of real estate is subject to review by a valuer at least once per year.

The Bank classifies the risk exposures according to the degree of credit risk in the following classification groups, in accordance with the adopted "Provisioning policy" - servicing exposures and default risk exposures.

The Credit Board approves for corporate exposures from BGN 1 million to BGN 4 million and for exposures in the business line retail banking from BGN 500 thousand to BGN 4 million, as well as restructuring of exposures over BGN 250 thousand. .

*Serviced exposures*

A risk exposure is classified as serviced if it meets the following conditions at the same time: the principal and interest are paid in accordance with the terms of the contract or with a delay of up to 90 days and there is no recorded default event.

*Defaulting risk exposures*

It is considered that a default has occurred in respect of a particular debtor where at least one of the following conditions is met:

a) It is unlikely that the borrower will pay his/her credit liabilities to the Bank in full without taking of actions by the Bank, e.g. Realization of collateral, regardless of the size of overdue payment and days overdue;
b) the borrower is over 90 days overdue for a substantial part of his/her credit liability to the Bank.

The classification of the risk groups is as follows:

“Regular" are risk exposures on loans and other receivables that are serviced and for which the debtor's financial statements do not give reason to doubt that he will fully settle his obligations.

“Under Supervision" exposures are risk exposures on loans and other receivables where there are minor breaches in their servicing or there is a possibility for a deterioration in the debtor's financial condition that may call into question the full repayment of the obligation.

Non-performing exposures are risk exposures on loans and other receivables where there are significant breaches in their service, or there is evidence that the debtor's financial position is not stable, its current and expected receipts are insufficient to fully pay off its debts to the Bank and to other creditors, as well as when there are identified weaknesses with a clear possibility for the Bank to suffer a loss.

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

***Credit risk management, (continued)***

The classification of the risk groups is as follows (continued)

“Loss" exposures are risk exposures where, owing to a deterioration in the financial condition of the obligor, it is probable that its liabilities will become irrecoverable, even though they have a partial recoverable amount that can be realized in the future.

Risk exposures in default are classified as "non-performing" and "loss". The Bank assesses individually all individually significant risk exposures in default. If a debtor has more than one exposure, the highest risk class is assigned to all of his exposures.

**Credit risk analysis**

The table below provides information on maximum exposure to credit risk.

**Credit risk exposure**

| *In BGN thousand* | **App.** | **2021** | **2020** |
|---|---|---|---|
| Cash and cash equivalents (excluding cash at hand) | 16 | 909,936 | 949,128 |
| Financial assets at fair value through profit and loss (excl. equity instruments) | 17 | 1 | 1 |
| Loans and advances to banks | 18 | 9,753 | 39,059 |
| Financial assets reported at fair value through other comprehensive income;(excl. equity instruments) | 19.1 | 365,033 | 202,697 |
| Financial assets at amortized cost: | 19.2 | 633,413 | 468,543 |
| Loans and advances to clients | 20 | 1,622,880 | 1,547,666 |
| *incl. Cash pool* | | *9,405* | *205,473* |
| **Total book value of the credit risk** | | **3,541,016** | **3,207,094** |
| Off-balance sheet commitments | | | |
| Unutilized overdrafts and credit lines | | 181,845 | 117,909 |
| Guarantees | | 43,281 | 46,387 |
| Letters of credit | | 9,486 | 2,371 |
| **Total off-balance sheet commitments** | **34** | **234,612** | **166,667** |
| **Total credit risk exposure** | | **3,775,628** | **3,373,761** |

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit Risk analysis (continued)**

The table below provides information on the distribution of loans in the loan portfolio of Allianz Bank Bulgaria AD by type of loan for each of the products offered by the Bank. Securities and promissory notes are not included in the collateral.

| Loan type | Consumer loans | Mortgage loans | Corporate loans and loans to SMEs | Financial Institutions | Total net carrying amount |
|---|---|---|---|---|---|
| Unsecured Loans | 307,040 | 2,430 | 78,192 | 536 | 388,198 |
| Loans secured by: | 43,210 | 635,555 | 605,736 | 37,950 | 1,322,451 |
| Residential Properties | - | 612,353 | 62,137 | - | 674,490 |
| Commercial properties | - | 21,945 | 207,021 | 6,326 | 235,292 |
| Cash | 1,377 | 38 | 6,241 | - | 7,656 |
| Other collateral | 41,833 | 1,219 | 330,337 | 31,624 | 405,013 |
| **Total loans at 31.12.2021** | **393,460** | **637,985** | **683,928** | **38,486** | **1,710,649** |

| Loan type | Consumer loans | Mortgage loans | Corporate loans and loans to SMEs | Financial Institutions | Total net carrying amount |
|---|---|---|---|---|---|
| Unsecured Loans | 279,120 | 2,388 | 80,237 | 162 | 361,907 |
| Loans secured by: | 39,886 | 519,353 | 471,214 | 31,804 | 1,062,257 |
| Residential Properties | 18 | 495,859 | 48,666 | - | 544,543 |
| Commercial properties | - | 22,215 | 203,893 | 2,830 | 228,938 |
| Cash | 1,994 | 23 | 7,726 | - | 9,743 |
| Other collateral | 37,874 | 1,256 | 210,929 | 28,974 | 279,033 |
| **Total loans at 31.12.2020** | **319,006** | **521,741** | **551,451** | **31,966** | **1,424,164** |

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit Risk analysis (continued)**

The analysis of loans and advances to customers, banks and other financial institutions and investment securities classified by risk is presented below:

| *In BGN thousand* | **Loans and advances to clients (App. 20)** | | **Loans and advances to banks (App. 18)** | | **Investment securities (excluding equity instruments) (App. 19)** | | **Off-balance sheet commitments (App. 34)** | |
|---|---|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Regular | 1,561,423 | 1,482,615 | 9,754 | 39,060 | 998,445 | 671,864 | 50,472 | 46,961 |
| Under supervision | 101,637 | 85,158 | - | - | - | - | 2,266 | 2,387 |
| Non-performing | 56,994 | 61,864 | - | - | - | - | 1,011 | 124 |
| **Total** | **1,720,054** | **1,629,637** | **9,754** | **39,060** | **998,445** | **671,864** | **53,749** | **49,472** |
| Impairment losses | (97,174) | (81.971) | (1) | (1) | (790) | (624) | (982) | (714) |
| **Carrying amount** | **1,622,880** | **1,547,666** | **9,753** | **39,059** | **997,655** | **671,240** | **52,767** | **48,758** |
| | | | | | | | | |
| **W/o arrears or impairment** | | | | | | | | |
| Regular | 1,561,423 | 1,482,615 | 9,754 | 39,060 | 998,445 | 671,864 | 50,472 | 46,961 |
| Under supervision | 101,637 | 85,158 | - | - | - | - | 2,266 | 2,387 |
| *including restructured* | *2,808* | *3,746* | - | - | - | - | - | - |
| | **1,663,060** | **1,567,773** | **9,754** | **39,060** | **998,445** | **671,864** | **52,738** | **49,348** |

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit Risk analysis (continued)**

| *In BGN thousand* | **Loans and advances to clients** | | **Loans and advances to banks** | | **Investment securities (excluding equity instruments)** | | **Off-balance sheet commitments** | |
|---|---|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| **Individually impaired** | | | | | | | | |
| Non-performing | 16,683 | 12,046 | - | - | - | - | - | - |
| Loss | 39,425 | 37,133 | - | - | - | - | 1,011 | 124 |
| *including restructured* | *22,944* | *23,296* | - | - | - | - | - | - |
| | **56,108** | **49,179** | **-** | **-** | **-** | **-** | **1,011** | **124** |
| **Overdue, but not impaired** | | | | | | | | |
| 1≤ 30 days | 592 | 8,896 | - | - | - | - | - | - |
| > 30 days ≤ 60 days | 254 | 1,172 | - | - | - | - | - | - |
| > 60 days ≤ 90 days | 40 | 349 | - | - | - | - | - | - |
| > 90 days ≤ 180 days | - | 541 | - | - | - | - | - | - |
| > 180 days | - | 1,727 | - | - | - | - | - | - |
| *including restructured* | *251* | *4,662* | - | - | - | - | - | - |
| | **886** | **12,685** | **-** | **-** | **-** | **-** | **-** | **-** |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit Risk analysis (continued)**

| *In BGN thousand* | Loans and advances to clients | | Loans and advances to banks | | Investment securities (excluding equity instruments) | | Off-balance sheet commitments | |
|---|---|---|---|---|---|---|---|---|
| **Impairment losses** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Individually impaired | (52,036) | (45.690) | (1) | (1) | - | (624) | (548) | (650) |
| Collectively impaired | (45,138) | (36.281) | - | - | - | | (434) | (64) |
| | **(97.174)** | **(81.971)** | **(1)** | **(1)** | **-** | **(624)** | **(982)** | **(714)** |

Credit analysis and customer advances for 2021, by type of loan, classified by Phases is presented below:

| **Loan type** | **Mortgage loans** | **Consumer loans** | **Credit cards individuals** | **Other loans** | **Working capital loans** | **Investment loans** | **Credit cards entities** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Phase 1 (Regular) | 577,296 | 217,386 | 6,545 | 70,528 | 417,219 | 272,211 | 237 | 1,561,422 |
| Phase 2 (Under supervision) | 29,826 | 15,486 | 1,608 | 21,876 | 20,682 | 12,122 | 38 | 101,638 |
| Phase 3 (Non-performing) | 30,863 | 14,205 | 620 | 2,531 | 6,924 | 1,718 | 133 | 56,994 |
| **Total Gross value before impairment** | **637,985** | **247,077** | **8,773** | **94,935** | **444,825** | **286,051** | **408** | **1,720,054** |
| Phase 1 (Regular) | 5,848 | 2,569 | 37 | 575 | 13,181 | 12,498 | 4 | 34,712 |
| Phase 2 (Under supervision) | 4,027 | 1,534 | 40 | 1,533 | 1,431 | 1,860 | 1 | 10,426 |
| Phase 3 (Non-performing) | 26,355 | 13,973 | 615 | 2,531 | 6,705 | 1,724 | 133 | 52,036 |
| **Impairment losses** | **36,230** | **18,076** | **692** | **4,639** | **21,317** | **16,082** | **138** | **97,174** |
| **Carrying amount** | **601,755** | **229,001** | **8,081** | **90,296** | **423,508** | **269,969** | **270** | **1,622,880** |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit Risk analysis (continued)**

| Loan type | Mortgage loans | Consumer loans | Credit cards individuals | Other loans | Working capital loans | Investment loans | Credit cards entities | Total |
|---|---|---|---|---|---|---|---|---|
| **W/o arrears or impairment** | **609,706** | **232,984** | **8,159** | **92,404** | **437,901** | **284,333** | **275** | **1,665,762** |
| Phase 1 (Regular) | 577,296 | 217,386 | 6,545 | 70,528 | 417,219 | 272,211 | 237 | 1,561,422 |
| Phase 2 (Under supervision) | 29,826 | 15,486 | 1,608 | 21,876 | 20,682 | 12,122 | 38 | 101,638 |
| Phase 3 (Non-performing) | 2,584 | 112 | 6 | - | - | - | - | 2,702, |
| *including restructured* | *1,402* | *116* | - | *15* | *329* | *1,531* | - | *3,393* |
| | | | | | | | | |
| **Individually impaired** | **27,449** | **14,037** | **614** | **2,531** | **6,924** | **1,718** | **133** | **53,406** |
| Phase 3 (Non-performing) | 27,449 | 14,037 | 614 | 2,531 | 6,924 | 1,718 | 133 | 53,406 |
| *including restructured* | *16,679* | *1,656* | - | *36* | *2,928* | *1,050* | *10* | *22,359* |
| | | | | | | | | |
| **Overdue, but not impaired** | **830** | **56** | **-** | **-** | **-** | **-** | **-** | **886** |
| 1≤ 30 days | 569 | 23 | - | - | - | - | - | 592 |
| > 30 days ≤ 60 days | 223 | 31 | - | - | - | - | - | 254 |
| > 60 days ≤ 90 days | 38 | 2 | - | - | - | - | - | 40 |
| > 90 days ≤ 180 days | - | - | - | - | - | - | - | - |
| > 180 days | - | - | - | - | - | - | - | - |
| *including restructured* | *251* | - | - | - | - | - | - | *251* |
| | **637,985** | **247,077** | **8,773** | **94,935** | **444,825** | **286,051** | **408** | **1,720,054** |
| Impairment losses | **36,230** | **18,076** | **692** | **4,639** | **21,317** | **16,082** | **138** | **97,174** |
| Individually impaired | **26,355** | **13,973** | **615** | **2,531** | **6,705** | **1,724** | **133** | **52,036** |
| Collectively impaired | **9,875** | **4,103** | **77** | **2,108** | **14,612** | **14,358** | **5** | **45,138** |
| | **601,755** | **229,001** | **8,081** | **90,296** | **423,508** | **269,969** | **270** | **1,622,880** |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit Risk analysis (continued)**

Credit analysis and customer advances for 2020, by type of loan, classified by Phases is presented below:

| Loan type | Mortgage loans | Consumer loans | Credit cards individuals | Other loans | Working capital loans | Investment loans | Credit cards entities | Total |
|---|---|---|---|---|---|---|---|---|
| Phase 1 (Regular) | 460,215 | 195,718 | 9,054 | 60,826 | 514,274 | 242,356 | 172 | 1,482,615 |
| Phase 2 (Under supervision) | 27,921 | 14,997 | 1,934 | 20,126 | 7,421 | 12,725 | 34 | 85,158 |
| Phase 3 (Non-performing) | 33,603 | 12,229 | 805 | 3,319 | 9,406 | 2,364 | 138 | 61,864 |
| **Total Gross value before impairment** | **521,739** | **222,944** | **11,793** | **84,271** | **531,101** | **257,445** | **344** | **1,629,637** |
| Phase 1 (Regular) | 5,122 | 2,550 | 87 | 421 | 9,069 | 10,700 | 3 | 27,952 |
| Phase 2 (Under supervision) | 3,296 | 1,648 | 153 | 1,096 | 805 | 1,325 | 6 | 8,329 |
| Phase 3 (Non-performing) | 20,071 | 11,731 | 773 | 3,319 | 8,110 | 1,582 | 104 | 45,690 |
| **Impairment losses** | **28,489** | **15,929** | **1,013** | **4,836** | **17,984** | **13,607** | **113** | **81,971** |
| **Carrying amount** | **493,250** | **207,015** | **10,780** | **79,435** | **513,117** | **243,838** | **231** | **1,547,666** |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit Risk analysis (continued)**

| **Loan type** | **Mortgage loans** | **Consumer loans** | **Credit cards individuals** | **Other loans** | **Working capital loans** | **Investment loans** | **Credit cards entities** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **W/o arrears or impairment** | **494,508** | **210,866** | **10,997** | **80,952** | **522,708** | **255,339** | **240** | **1,575,610** |
| Phase 1 (Regular) | 460,215 | 195,717 | 9,054 | 60,826 | 514,275 | 242,356 | 172 | 1,482,615 |
| Phase 2 (Under supervision) | 27,921 | 14,997 | 1,934 | 20,126 | 7,421 | 12,725 | 34 | 85,158 |
| Phase 3 (Non-performing) | 6,372 | 152 | 9 | - | 1,012 | 258 | 34 | 7,837 |
| *including restructured* | *3,749* | *277* | - | *75* | *419* | *2,179* | - | *6,699* |
| | | | | | | | | |
| **Individually impaired** | **23,284** | **11,856** | **789** | **3,319** | **8,213** | **1,614** | **104** | **49,179** |
| Phase 3 (Non-performing) | 23,284 | 11,856 | 789 | 3,319 | 8,213 | 1,614 | 104 | 49,179 |
| *including restructured* | *16,733* | *1,625* | - | - | *3,783* | *1,139* | *16* | *23,296* |
| | | | | | | | | |
| **Overdue, but not impaired** | **3,947** | **222** | **7** | **-** | **180** | **492** | **-** | **4,848** |
| 1≤ 30 days | 974 | 86 | - | - | - | - | - | 1,060 |
| > 30 days ≤ 60 days | 787 | 15 | - | - | - | 370 | - | 1,172 |
| > 60 days ≤ 90 days | 310 | 39 | - | - | - | - | - | 349 |
| > 90 days ≤ 180 days | 441 | 72 | 2 | - | - | 26 | - | 541 |
| > 180 days | 1,435 | 10 | 5 | - | 180 | 96 | - | 1,726 |
| *including restructured* | *1,055* | - | - | - | *180* | *472* | - | *1,707* |
| | **521,739** | **222,944** | **11,793** | **84,271** | **531,101** | **257,445** | **344** | **1,629,637** |
| Impairment losses | **28,489** | **15,929** | **1,013** | **4,836** | **17,984** | **13,607** | **113** | **81,971** |
| Individually impaired | **20,071** | **11,731** | **773** | **3,319** | **8,110** | **1,582** | **104** | **45,690** |
| Collectively impaired | **8,418** | **4,198** | **240** | **1,517** | **9,874** | **12,025** | **9** | **36,281** |
| | **493,250** | **207,015** | **10,780** | **79,435** | **513,117** | **243,838** | **231** | **1,547,666** |

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit Risk analysis (continued)**

The analysis of loans and advances to customers for 2021 (cash pool and factoring receivables are not included in the analysis) in Phase 1 according to the internal rating assessment is presented below:

**Gross book value:**

| Rating | Other loans | Investment loans | Mortgage loans | Credit cards | Working capital loans | Consumer loans | Finance lease | Total |
|---|---|---|---|---|---|---|---|---|
| A+ | - | - | - | - | 1,960 | - | - | **1,960** |
| A | - | - | - | - | 616 | - | - | **616** |
| BBB+ | - | - | - | - | - | - | - | **-** |
| BBB | - | - | - | - | - | 4 | - | **4** |
| BBB- | - | 2,305 | 9,239 | 200 | 19,619 | 625 | - | **31,988** |
| BB+ | - | 2,120 | 16,612 | 1,824 | 9,960 | 1,823 | 416 | **32,755** |
| BB | 42 | 8,103 | 34,279 | 1,507 | 7,062 | 4,252 | 587 | **55,832** |
| BB- | 68 | 75,130 | 51,147 | 876 | 6,362 | 9,751 | 5,491 | **148,825** |
| B+ | 47 | 65,058 | 382,408 | 1,936 | 67,334 | 158,998 | 17,789 | **693,570** |
| B | 213 | 68,703 | 70,201 | 328 | 119,685 | 27,358 | 42,914 | **329,402** |
| B- | 13 | 47,576 | 8,932 | 24 | 56,340 | 7,943 | 1,706 | **122,534** |
| CCC+ | - | 725 | 3,189 | 40 | 18,010 | 4,637 | 53 | **26,654** |
| CCC | - | 2,491 | 1,036 | 33 | 12,976 | 1,749 | 28 | **18,313** |
| CCC- | - | - | 137 | 14 | 40 | 236 | 1,161 | **1,588** |
| CC | - | - | 116 | - | - | 10 | - | **126** |
| **Total** | **383** | **272,211** | **577,296** | **6,782** | **319,964** | **217,386** | **70,145** | **1,464,167** |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit Risk analysis (continued)**

**Expected credit loss:**

| Rating | Other loans | Investment loans | Mortgage loans | Credit cards | Working capital loans | Consumer loans | Finance lease | Total |
|---|---|---|---|---|---|---|---|---|
| A+ | - | - | - | - | - | - | - | **-** |
| A | - | - | - | - | - | - | - | **-** |
| BBB+ | - | - | - | - | - | - | - | **-** |
| BBB | - | - | - | - | - | - | - | **-** |
| BBB- | - | 3 | 10 | - | 20 | - | - | **33** |
| BB+ | - | 25 | 28 | 3 | 10 | 3 | 13 | **82** |
| BB | - | 36 | 126 | 4 | 27 | 12 | 10 | **215** |
| BB- | - | 516 | 380 | 4 | 40 | 49 | 17 | **1,006** |
| B+ | - | 776 | 3,223 | 18 | 771 | 1,424 | 64 | **6,276** |
| B | 1 | 2,612 | 1,402 | 7 | 2,641 | 528 | 318 | **7,509** |
| B- | - | 8,338 | 357 | 1 | 7,977 | 235 | 119 | **17,027** |
| CCC+ | - | 31 | 195 | 2 | 880 | 199 | - | **1,307** |
| CCC | - | 161 | 112 | 2 | 712 | 105 | - | **1,092** |
| CCC- | - | - | 7 | - | 3 | 12 | 33 | **55** |
| CC | - | - | 8 | - | - | 2 | - | **10** |
| **Total** | **1** | **12,498** | **5,848** | **41** | **13,081** | **2,569** | **574** | **34,612** |
| **Carrying amount** | **382** | **259,713** | **571,448** | **6,741** | **306,883** | **214,817** | **69,571** | **1,429,555** |

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit Risk analysis (continued)**

The analysis of loans and advances to customers for 2020 (cash pool and factoring receivables are not included in the analysis) in Phase 1 according to the internal rating assessment is presented below:

**Gross book value:**

| Rating | Other loans | Investment loans | Mortgage loans | Credit cards | Working capital loans | Consumer loans | Finance lease | Total |
|---|---|---|---|---|---|---|---|---|
| A+ | - | - | - | - | 1,973 | - | - | **1,973** |
| A | - | - | - | - | 568 | - | - | **568** |
| BBB+ | - | - | - | 6 | - | - | - | **6** |
| BBB | - | - | - | 4 | 19,608 | - | - | **19,612** |
| BBB- | - | - | 12,941 | 245 | 9,829 | 1,305 | 30 | **24,350** |
| BB+ | - | 1,504 | 22,312 | 2,222 | 432 | 3,443 | 1,180 | **31,093** |
| BB | 71 | 5,426 | 43,051 | 2,060 | 2,031 | 7,746 | 997 | **61,382** |
| BB- | 122 | 66,993 | 64,213 | 1,317 | 8,502 | 15,966 | 2,052 | **159,165** |
| B+ | 194 | 81,977 | 219,006 | 2,501 | 50,439 | 102,482 | 24,181 | **480,780** |
| B | 332 | 63,943 | 81,354 | 508 | 75,020 | 40,630 | 26,198 | **287,985** |
| B- | 47 | 19,218 | 11,387 | 44 | 85,949 | 12,446 | 3,824 | **132,915** |
| CCC+ | - | 996 | 4,442 | 90 | 17,771 | 8,488 | 78 | **31,865** |
| CCC | - | 2,300 | 1,200 | 24 | 5,498 | 2,984 | 41 | **12,047** |
| CCC- | - | - | 148 | 206 | 54 | 202 | 1,479 | **2,089** |
| CC | - | - | 160 | - | 586 | 25 | - | **771** |
| **Total** | **766** | **242,357** | **460,214** | **9,227** | **278,260** | **195,717** | **60,060** | **1,246,601** |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit Risk analysis (continued)**

**Expected credit loss:**

| Rating | Other loans | Investment loans | Mortgage loans | Credit cards | Working capital loans | Consumer loans | Finance lease | Total |
|---|---|---|---|---|---|---|---|---|
| A+ | - | - | - | - | - | - | - | - |
| A | - | - | - | - | - | - | - | - |
| BBB+ | - | - | - | - | - | - | - | - |
| BBB | - | - | - | - | 21 | - | - | 21 |
| BBB- | - | - | 21 | - | 17 | 2 | - | 40 |
| BB+ | - | 3 | 43 | 13 | 3 | 6 | 7 | 75 |
| BB | - | 495 | 210 | 15 | 7 | 23 | 8 | 758 |
| BB- | - | 504 | 507 | 12 | 155 | 78 | 13 | 1,269 |
| B+ | 1 | 5,537 | 1,816 | 26 | 462 | 746 | 66 | 8,654 |
| B | 2 | 2,402 | 1,726 | 16 | 1,634 | 774 | 237 | 6,791 |
| B- | 1 | 1,543 | 471 | 2 | 5,708 | 377 | 38 | 8,140 |
| CCC+ | - | 47 | 183 | 1 | 608 | 354 | 1 | 1,194 |
| CCC | - | 168 | 128 | 1 | 315 | 175 | 1 | 788 |
| CCC- | - | - | 6 | 3 | 7 | 14 | 47 | 77 |
| CC | - | - | 11 | - | 95 | 2 | - | **108** |
| **Total** | **4** | **10,699** | **5,122** | **89** | **9,032** | **2,551** | **418** | **27,915** |
| | | | | | | | | |
| **Carrying amount** | **762** | **231,658** | **455,092** | **9,138** | **269,228** | **193,166** | **59,642** | **1,218,686** |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit Risk analysis (continued)**

***Expected credit loss***

IFRS 9 replaces the model of "occurred loss" in IAS 39 with the model of "expected credit loss" (ECL). This will require substantial judgment on the way changes in economic factors are reflected in ECL.

The impairment model applies to the following financial assets which are not measured at FVPL:

- financial assets comprising debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts (before impairment was determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

***Evaluation of ECL***

ECL is the probability-weighted estimated credit loss and will be determined as follows:

- *financial assets that do not have credit impairment at the reporting date:* the present value of the entire cash deficit - i.e.. the difference between the cash flows due under the contract and the cash flows that the Bank expects to receive;
- *financial assets that have credit impairment at the reporting date:* the difference between the gross carrying amount and the present value of the expected future cash flows;
- - *unutilized credit commitments:* the present value of the difference between the contractual cash flows payable to the Bank if the commitment is utilized and the cash flows that the Bank expects to receive;

The full description of the estimates and the method of estimating the expected credit loss are described in item 5, (e), (ii).

***W/o arrears or impairment***

Loans without arrears or impairment are serviced exposures that have no objective impairment indicators and for which the Bank allocates collective provisions for losses incurred but unrecorded at the exposure level. For the purpose of monitoring, the Bank groups the risk exposures on a portfolio basis in separate sub-portfolios on the basis of similar characteristics, according to their type, purpose and risk profile. The Bank considers exposures subject to collective impairment for unrated exposures.

***Individually impaired***

Individually impaired loans are those for which the Bank considers that it will not be able to collect all principal and interest under the contractual terms of the transaction.

***Overdue, but not impaired***

Loans where the agreed principal and / or interest are overdue, but the Bank considers that it is not necessary to set aside uncollectible impairment on the basis of the collateral available or the collection stage of the amounts owed by the borrower.

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit Risk analysis (continued)**

***Restructured loans***

Restructured loans are risk exposures whose original terms of the agreement have been altered by the Bank's concession to the debtor, caused by a deterioration in the latter's financial condition, leading to the inability to repay the full amount of the debt, which concessions the Bank would not consider in other circumstances.

A concession means any of the following actions:

a) modification of the previous duration and contractual terms, which the borrower is not able to comply with due to his/her financial difficulties ("problematic debt") leading to an inability to service the debt, whereas such modifications would not have been made, had the debtor not experienced financial difficulties.

(b) Full or partial refinancing of a problematic debt contract that would not have been provided to a debtor if he had no financial difficulties.

The concession may lead to a loss for the Bank.

Exposures are not treated as exposures with renegotiated terms when the Bank has reason to believe that it will collect principal and interest and there are no circumstances showing a deterioration in the debtor's financial position.

The table below presents an analysis of gross and net (after deduction of impairment losses) carrying amounts of the individually impaired assets by risk groups:

| | Loans and advances to clients | | |
|---|---|---|---|
| *In BGN thousand* | **Gross** | **Net** | **% of impairment** |
| **2021** | | | |
| Non-performing | 39,845 | 1,174 | 97% |
| Loss | 17,149 | 3,784 | 78% |
| **Total** | **56,994** | **4,958** | **91%** |
| **2020** | | | |
| Non-performing | 18,502 | 8,474 | 54% |
| Loss | 43,362 | 7,687 | 82% |
| **Total** | **61,864** | **16,161** | **74%** |

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit Risk analysis (continued)**

The table below shows the amounts of derecognized loans and advances to customers:

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Derecognized loans | 645 | 7,206 |
| Impairment losses | (645) | (7.206) |
| **Value after impairment** | **-** | **-** |

The table below presents an analysis of restructured loans and advances to customers as of 31.12.2021 and 31.12.2020:

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| *Restructured loans and advances to clients* | **26,003** | **31,704** |
| Impairment losses | 22,786 | 22,642 |
| Carrying amount | 3,217 | 9,062 |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit Risk analysis (continued)**

| | Provisions | | | | Gross book value | | | |
|---|---|---|---|---|---|---|---|---|
| *Loans* | **Phase 1** | **Phase 2** | **Phase 3** | **Total** | **Phase 1** | **Phase 2** | **Phase 3** | **Total** |
| **1.01.2021** | **27,952** | **8,329** | **45,690** | **81,971** | **1,482,615** | **85,158** | **61,864** | **1,629,637** |
| *Changes that affected the provisioning expense over the period* | *6,760* | *2,097* | *6,346* | ***15,203*** | *78,808* | *16,479* | *(4,870)* | ***90,417*** |
| Changes due to migration from Phase 1 to Phase 2 | (386) | 386 | - | **-** | (31,366) | 31,366 | - | **-** |
| Changes due to migration from Phase 1 and Phase 2 to Phase 3 | (90) | (686) | 776 | **-** | (3,563) | (4,358) | 7,921 | **-** |
| Changes due to migration from Phase 2 and Phase 3 to Phase 1 | - | 666 | (666) | **-** | 308 | 846 | (1,154) | **-** |
| Increases due to occurrence and acquisition | 13,225 | 5,272 | 18,492 | **36,989** | 553,010 | 18,525 | 5,223 | **576,758** |
| Decrease of the correction due to derecognition | - | - | (645) | **(645)** | - | - | (645) | **(645)** |
| Changes in accrued interest | - | - | - | **-** | - | - | - | **-** |
| Changes due to repayments | (5,989) | (3,541) | (11,611) | **(21,141)** | (439,581) | (29,900) | (16,215) | **(485,696)** |
| **Movements with an impact on loan provision for the period 31.12.2021** | **34,712** | **10,426** | **52,036** | **97,174** | **1,561,423** | **101,637** | **56,994** | **1,720,054** |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit Risk analysis (continued)**

| *Loans* | Provisions Phase 1 | Phase 2 | Phase 3 | Total | Gross book value Phase 1 | Phase 2 | Phase 3 | Total |
|---|---|---|---|---|---|---|---|---|
| **1.01.2020** | **11,742** | **4,617** | **48,167** | **64,526** | **1,289,311** | **73,524** | **69,200** | **1,432,035** |
| *Changes that affected the provisioning expense over the period* | *16,210* | *3,712* | *(2,477)* | ***17,445*** | *193,304* | *11,634* | *(7,336)* | ***197,602*** |
| Changes due to migration from Phase 1 to Phase 2 | (343) | 343 | - | **-** | (31,681) | 31,681 | - | **-** |
| Changes due to migration from Phase 1 and Phase 2 to Phase 3 | (105) | (457) | 562 | **-** | (6,717) | (5,194) | 11,911 | **-** |
| Changes due to migration from Phase 2 and Phase 3 to Phase 1 | 1 | (1) | - | **-** | 135 | (67) | (68) | **-** |
| Increases due to occurrence and acquisition | 19,679 | 5,203 | 15,355 | **40,237** | 488,898 | 12,912 | 5,956 | **507,766** |
| Decrease of the correction due to derecognition | - | - | (7,206) | **(7,206)** | - | - | (7,206) | **(7,206)** |
| Changes in accrued interest | - | - | - | **-** | - | - | - | **-** |
| Changes due to repayments | (3,022) | (1,376) | (11,188) | **(15,586)** | (257,331) | (27,698) | (17,929) | **(302,958)** |
| **Movements with an impact on loan provision for the period 31.12.2020** | **27,952** | **8,329** | **45,690** | **81,971** | **1,482,615** | **85,158** | **61,864** | **1,629,637** |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit Risk analysis (continued)**

| *Financial guarantees* | **Phase 1** | **Phase 2** | **Phase 3** | **Total provisions** | **Gross book value** |
|---|---|---|---|---|---|
| **Provisions for financial guarantees as at 01.01.2021** | **621** | **28** | **65** | **714** | **49,472** |
| *Changes that affected the provisioning expense for financial guarantees over the period* | (235) | 20 | 483 | **268** | 4,277 |
| Transfer | | | | | |
| Changes due to migration from Phase 1 to Phase 2 | (1) | 1 | - | **-** | - |
| Changes due to migration from Phase 1 and Phase 2 to Phase 3 | (3) | - | 3 | **-** | - |
| Changes due to migration from Phase 2 and Phase 3 to Phase 1 | - | - | - | **-** | - |
| Guarantees issued and change in ECL without Phase change | 286 | 27 | 519 | **832** | 31,946- |
| Change from tax depreciation | - | - | - | **-** | - |
| Changes due to modification without derecognition | - | - | - | **-** | - |
| Changes due to updating the institution's valuation methodology | - | - | - | **-** | - |
| Decrease of the correction due to derecognition | - | - | - | **-** | - |
| Changes resulting from cancellation of bank guarantees or change in ECL without Phase change | (517) | (8) | (39) | **(564)** | (27,669) |
| **Total cost of provisions on financial guarantees** | **(235)** | **20** | **483** | **268** | **4,277** |
| **Provisions for financial guarantees as at 31.12.2021** | **386** | **48** | **548** | **982** | **53,749** |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit Risk analysis (continued)**

| *Financial guarantees* | **Phase 1** | **Phase 2** | **Phase 3** | **Total provisions** | **Gross book value** |
|---|---|---|---|---|---|
| **Provisions for financial guarantees as at 31.12.2020** | **410** | **45** | **280** | **735** | **43,777** |
| *Changes that affected the provisioning expense for financial guarantees over the period* | 211 | (17) | (215) | **(21)** | 5,695 |
| Transfer | | | | | |
| Changes due to migration from Phase 1 to Phase 2 | - | - | - | **-** | - |
| Changes due to migration from Phase 1 and Phase 2 to Phase 3 | - | - | - | **-** | - |
| Changes due to migration from Phase 2 and Phase 3 to Phase 1 | - | - | - | **-** | - |
| Guarantees issued and change in ECL without Phase change | 379 | 5 | 39 | **423** | 26,569 |
| Change from tax depreciation | - | - | - | **-** | - |
| Changes due to modification without derecognition | - | - | - | **-** | - |
| Changes due to updating the institution's valuation methodology | - | - | - | **-** | - |
| Decrease of the correction due to derecognition | - | - | - | **-** | - |
| Changes resulting from cancellation of bank guarantees or change in ECL without Phase change | (168) | (22) | (254) | **(444)** | (20,874) |
| **Total cost of provisions on financial guarantees** | **211** | **(17)** | **(215)** | **(21)** | **5,695** |
| **Provisions for financial guarantees as at 31.12.2020** | **621** | **28** | **65** | **714** | **49,472** |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit Risk analysis (continued)**

| | Phase 1 | Phase 2 | Phase 3 | Provisions Total | Phase 1 | Phase 2 | Phase 3 | Credit commitments Total |
|---|---|---|---|---|---|---|---|---|
| **1.01.2021** | **1,322** | **228** | **617** | **2,167** | **110,143** | **9,239** | **694** | **120,076** |
| *Changes that affected the provisioning expense over the period* | 328 | (125) | 667 | **870** | 24,409 | (3,515) | 600 | **21,494** |
| Changes due to migration from Phase 1 to Phase 2 | (53) | 52 | 1 | **-** | (2,692) | 2,692 | - | **-** |
| Changes due to migration from Phase 1 and Phase 2 to Phase 3 | - | - | | **-** | (71) | (33) | 104 | **-** |
| Changes due to migration from Phase 2 and Phase 3 to Phase 1 | 5 | 31 | (36) | **-** | 50 | 29 | (79) | **-** |
| Increases due to occurrence and acquisition | 1,131 | 41 | 872 | **2,044** | 73,847 | 1,684 | 860 | **76,391** |
| Changes due to modification without derecognition | - | - | - | - | - | - | - | **-** |
| Changes due to updating the institution's valuation methodology | - | - | - | - | - | - | - | **-** |
| Decrease of the correction due to derecognition | - | - | - | - | - | - | - | **-** |
| Changes in accrued interest | - | - | - | - | - | - | - | **-** |
| Changes due to repayments | (755) | (249) | (170) | **(1,174)** | (46,725) | (7,887) | (285) | **(54,897)** |
| **Movements with an impact on loan provision for the period** | **1,650** | **103** | **1,284** | **3,037** | **134,552** | **5,724** | **1,294** | **141,570** |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit Risk analysis (continued)**

| | | | | **Provisions** | | | | **Credit commitments** |
|---|---|---|---|---|---|---|---|---|
| | **Phase 1** | **Phase 2** | **Phase 3** | **Total** | **Phase 1** | **Phase 2** | **Phase 3** | **Total** |
| **01.01.2020)** | **1,659** | **67** | **581** | **2,307** | **121,546** | **4,102** | **645** | **126,293** |
| *Changes that affected the provisioning expense over the period* | (337) | 161 | 36 | **(140)** | (11,403) | 5,137 | 49 | **(6,217)** |
| Changes due to migration from Phase 1 to Phase 2 | (7) | 7 | - | **-** | (1,241) | 1,241 | - | **-** |
| Changes due to migration from Phase 1 and Phase 2 to Phase 3 | (1) | (1) | 2 | **-** | (168) | (63) | 231 | **-** |
| Changes due to migration from Phase 2 and Phase 3 to Phase 1 | - | - | - | **-** | 16 | (16) | - | **-** |
| Increases due to occurrence and acquisition | 849 | 181 | 218 | **1,248** | 51,904 | 5,583 | 163 | **57,650** |
| Changes due to modification without derecognition | - | - | - | **-** | - | - | - | **-** |
| Changes due to updating the institution's valuation methodology | - | - | - | **-** | - | - | - | **-** |
| Decrease of the correction due to derecognition | - | - | - | **-** | - | - | - | **-** |
| Changes in accrued interest | - | - | - | **-** | - | - | - | **-** |
| Changes due to repayments | (1,178) | (26) | (184) | **(1,388)** | (61,914) | (1,608) | (345) | **(63,867)** |
| **Movements with an impact on loan provision for the period** | **1,322** | **228** | **617** | **2,167** | **110,143** | **9,239** | **694** | **120,076** |

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

### Credit Risk analysis (continued)

The table below presents the concentration of credit risk by economic sectors.

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| **Concentration by sector** | | |
| State government | 25,412 | 26,083 |
| Administrative and auxiliary activities | 2,741 | 13,710 |
| Operations with Real Estate | 60,014 | 38,585 |
| Manufacturing | 71,296 | 86,953 |
| Production and distribution of electricity and heat energy | 71,284 | 49,764 |
| Professional activities and research | 4,797 | 3,355 |
| Agriculture, forestry and fishery | 60,529 | 48,460 |
| Construction | 19,823 | 24,998 |
| Creation and dissemination of information and creative products; telecommunications | 2,245 | 2,116 |
| Transport, storage and mail | 8,881 | 14,972 |
| Trade, repair of motor vehicles and motorcycles | 247,744 | 175,392 |
| Financial and insurance services | 82,454 | 240,020 |
| Hospitality and restaurant business | 61,264 | 59,837 |
| Other | 13,335 | 4,645 |
| | **731,819** | **788,890** |
| **Loans to the population** | | |
| Mortgage | 637,985 | 521,739 |
| Consumer | 350,250 | 319,008 |
| | **988,235** | **840,747** |
| Impairment losses | (97,174) | (81,971) |
| | **1,622,880** | **1,547,666** |

*Collateral and other credit facilities*

The Bank's policy includes consideration of the need to provide collateral before granting approved loans. The degree of collateral of each specific risk exposure is established against the amount of collateral accepted by the Bank for the application of specific security margins.

Collaterals on loans, guarantees and letters of credit, excluding credit cards, include cash, property, plant and equipment, exchange-traded government securities, or other property, a pledge of receivables, a pledge of a commercial enterprise, and others.

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

### Credit Risk analysis (continued)

*Collateral and other credit facilities (continued)*

The Bank holds collateral and other credit facilities against certain credit exposures. The table below lists the major types of collateral held against different types of financial assets.

| | | **Percentage of the exposure subject to an agreement requiring collateral** | |
|---|---|---|---|
| **Credit exposure type** | **Main type of collateral** | **2021** | **2020** |
| *Loans and advances to banks* | | | |
| Sale and redemption agreements | Tradeable securities | 100 | 100 |
| *Loans and advances to individuals* | | | |
| Home loans | Residential Properties | 100 | 100 |
| Consumer lending | Guarantee, pledge of receivables originating from salary and other remuneration | 100 | 100 |
| Credit cards | None | - | - |
| *Loans and advances to corporate clients* | | | |
| Other lending to corporate clients | Commercial property, Commercial property rights | 100 | 100 |

The Bank requires valuers to measure net realizable value, which is the sale price of the asset on a liquid market, less the additional costs directly associated with the realization (sale) of the asset.

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit Risk analysis (continued)**

*Collateral and other credit facilities (continued)*

The table below shows the total amount before deduction of impairment of loans and advances to customers provided by the Bank:

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| **Cash** | **7,656** | **9,743** |
| Regular | 7,179 | 8,154 |
| Under supervision | 213 | 566 |
| Non-performing | 239 | 437 |
| Loss | 25 | 586 |
| **Mortgage on Real Estate** | **909,782** | **773,481** |
| Regular | 821,955 | 689,867 |
| Under supervision | 52,220 | 42,877 |
| Non-performing | 9,159 | 10,694 |
| Loss | 26,448 | 30,043 |
| **Other collateral** | **405,013** | **279,033** |
| Regular | 385,603 | 263,944 |
| Under supervision | 13,396 | 9,335 |
| Non-performing | 1,853 | 1,314 |
| Loss | 4,161 | 4,440 |
| **Secured loans** | **1,322,451** | **1,062,257** |
| **Unsecured loans** | **397,603** | **361,907** |
| **Total loans and advances to clients** | **1,720,054** | **1,424,164** |

Other collateral includes pledges on current assets - inventories, receivables from third parties as well as bets on commercial enterprises.

*Mortgage lending (individuals and corporate clients)*

The tables below provide credit exposures from mortgage loans and advances to customers - corporate clients and corporate clients - depending on the value of the loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross loan amount (or the corresponding amount of credit commitment) to the value of the collateral. Gross value does not include accrued impairment. The valuation of the collateral includes future costs for the acquisition and realization of the collateral. The value of mortgage collateral is based on the latest valuation made by an independent expert assessor.

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit Risk analysis (continued)**

*Mortgage lending (individuals and corporate clients) (continued)*

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| **Loan to value (LTV) ratio** | | |
| Less than 50% | 326,364 | 283,414 |
| 51% to 70% | 276,299 | 219,273 |
| 71% to 90% | 271,998 | 200,451 |
| 91% to 100% | 12,936 | 12,234 |
| More than 100% | 43,540 | 20,364 |
| **Total** | **931,137** | **735,736** |

As at 31 December 2021, the book value of the assets acquired from collaterals - real estate amounts to BGN 331 thousand. (as at 31 December 2020: BGN 331 thousand)

**Financial assets at fair value through profit and loss**

Below is an analysis of the credit quality of financial assets measured at fair value through profit or loss based on ratings of Standard & Poor's rating agency:

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| *Corporate bonds* | | |
| No rating | 2 | 2 |
| *Compensatory instruments* | | |
| No rating | 1 | 1 |
| | **3** | **3** |

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit Risk analysis (continued)**

The tables below set out the financial assets of the Bank by country of registration of the issuer at 31 December 2021 and 31 December 2020. (excluding capital instruments)

**2021**

| *In BGN thousand* | **Bulgaria** | **Netherlands** | **Spain** | **Poland** | **Romania** | **Croatia** | **USA** | **Total** |
|---|---|---|---|---|---|---|---|---|
| *Financial assets at fair value through profit and loss* | | | | | | | | |
| Compensatory instruments | 3 | - | - | - | - | - | - | 3 |
| | **3** | **-** | **-** | **-** | **-** | **-** | **-** | **3** |
| *Financial assets reported at fair value through other comprehensive income;* | | | | | | | | |
| Government securities | 228,795 | - | 31,600 | - | 55,141 | 5,079 | 33,565 | 354,180 |
| Corporate bonds | - | 8,883 | - | 1,969 | - | - | - | 10,852 |
| | **228,795** | **8,883** | **31,600** | **1,969** | **55,141** | **5,079** | **33,565** | **365,032** |
| *Financial assets measured at amortized cost:* | | | | | | | | |
| Government securities | 598,209 | - | 9,809 | - | 11,130 | 14,265 | - | 633,413 |
| Corporate bonds | - | - | - | - | - | - | - | - |
| | **598,209** | **-** | **9,809** | **-** | **11,130** | **14,265** | **-** | **633,413** |
| **Total** | **827,007** | **8,883** | **41,409** | **1,969** | **66,271** | **19,344** | **33,565** | **998,448** |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit Risk analysis (continued)**

**2020**

| *In BGN thousand* | **Bulgaria** | **Netherlands** | **Spain** | **Macedonia** | **Poland** | **Portugal** | **Romania** | **Hungary** | **Croatia** | **Czech Republic** | **USA** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Financial assets at fair value through profit and loss* | | | | | | | | | | | | |
| Compensatory instruments | 1 | - | - | - | - | - | - | - | - | - | - | 1 |
| | **1** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **1** |
| *Financial assets reported at fair value through other comprehensive income;* | | | | | | | | | | | | |
| Government securities | 53,778 | - | 31,910 | - | - | 4,069 | 57,763 | - | 5,286 | - | 9,556 | 162,362 |
| Corporate bonds | 4,081 | 8,942 | - | - | 24,702 | - | - | 2,610 | - | - | - | 40,335 |
| | **57,859** | **8,942** | **31,910** | **-** | **24,702** | **4,069** | **57,763** | **2,610** | **5,286** | **-** | **9,556** | **202,697** |
| *Financial assets measured at amortized cost* | | | | | | | | | | | | |
| Government securities | 365,716 | - | 9,839 | 8,663 | 9,536 | - | 11,206 | - | 14,648 | 17,238 | - | 436,846 |
| Corporate bonds | 15,883 | - | - | - | 13,817 | - | - | 1,997 | - | - | - | 31,697 |
| | **381,599** | **-** | **9,839** | **8,663** | **23,353** | **-** | **11,206** | **1,997** | **14,648** | **17,238** | **-** | **468,543** |
| **Total** | **439,459** | **8,942** | **41,749** | **8,663** | **48,055** | **4,069** | **68,969** | **4,607** | **19,934** | **17,238** | **9,556** | **671,241** |

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit risk analysis in connection with the COVID-19 pandemic**

During the reporting period, the Bank's activities were affected by the COVID-19 global pandemic. The COVID-19 pandemic was reflected in the financial and macroeconomic environment in 2021 as well, thus affecting the Bank's activities.

The unprecedented shock of COVID-19, both at EU and global level, initially led to a sudden halt in economic activity and a sharp deterioration in short-term economic perspectives. The Government of the Republic of Bulgaria has implemented a number of measures to mitigate the impact on the economy, such as a moratorium on loans, government-guaranteed loans and programs for the unemployed and for MSEs. The application of the moratorium on payments continued until March 2021 with an end date of effect for some borrowers 31.12.2021. The measures complemented monetary policy and prudential action taken by the ECB and the BNB.

In the second quarter of 2021, the GDP of Bulgaria in real terms decreased by -0.3% on a chain basis. In addition, upward price pressure has recently increased more than expected. Annual HICP inflation continued to accelerate to 4.0% in September 2021 (0.0% in December 2020). The increase in prices was widespread in HICP components and reflected the simultaneous action of pro-inflationary factors in both the external and internal macroeconomic environment. Both the recent slowdown in growth and rising inflation in recent months are due in part to a series of problems in global supply chains, resulting, among other factors, from the relative strength of demand to supply following the rapid economic recovery that was possible thanks to the measures taken in relation to COVID-19. Meanwhile, commodity prices have risen sharply in recent months, especially energy prices, intensifying upward pressure and downward pressure on economic activity.

As a result of high lending activity and uncertainty regarding the development of the economic environment, the BNB Governing Council increased the level of the countercyclical capital buffer applicable to credit risk exposures in the Republic of Bulgaria to 1.5% effective 1 January 2023, based on of assessment under Art. 5, para. 3 and para. 4 of Ordinance No. 8 of the BNB on Capital Buffers, the Combined Buffer Requirement, Restrictions on Allocations and the Recommendation for Additional Equity.

In connection with the continuing uncertainty and the challenges related to the economic effects of the spread of COVID-19 and the imposed restrictive measures, the Governing Council of the Bulgarian National Bank (BNB) decided to maintain the macroprudential measure to capitalize the full profit of banks for 2020.

Since the beginning of the COVID-19 crisis, the Bank has taken the necessary security and business continuity measures to ensure the sustainability of banking operations and to support its customers and employees, such as:

- establishing adequate control measures regarding the spread of infection in the workplace, which include a system of measures to reduce the transmission of infection and training of employees;
- activation of contingency plans, which include pandemic scenarios and which provide for measures for the specific Phases of pandemic development;
- an assessment of how quickly the measures provided for in the pandemic emergency scenario can be implemented and how long the Bank's operations can be maintained in such a scenario;

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

- remote working and other flexible working conditions for employees to ensure business continuity
- assessment and testing of the capacity of the existing IT infrastructure, also in the light of the potential increase in cyber attacks and the potential greater dependence on remote banking services;
- assessment of the risks of increased fraud related to cybersecurity, aimed at both customers and the Bank through phishing emails, etc.;
- entering into a dialogue with service providers in order to ensure the continuity of services in the event of a pandemic;
- a moratorium on payments under loan contracts to clients affected by the crisis, as an effective tool in the short-term liquidity difficulties of bank customers.

In connection with the COVID-19 pandemic and in pursuance of the Guidelines of the European Banking Authority (EBA), the decisions of the Bulgarian National Bank and the Association of Bulgarian Banks (ABB) on legislative and private moratoriums on payments under loan contracts applied by In view of the crisis caused by COVID-19, Allianz Bank AD has decided to join the established conditions for a private moratorium on payments and develop an operational plan, which helps in a balanced way to preserve the interests of its customers by continuing to provides high quality leasing services. The Bank offered its clients facilitation mechanisms for servicing the regular exposures of its borrowers affected by the measures related to the COVID-19 pandemic, following the decisions of the European Banking Authority (EBA), the Bulgarian National Bank and the Association of Banks in Bulgaria ( ABB).

On 11 December 2020, the Governing Council of the Bulgarian National Bank (BNB) pursuant to Art. 16, item 20 of the BNB Act and Art. 79a, para. 3 of the Credit Institutions Act approved the extension of the validity proposed by the Association of Banks in Bulgaria until 31 March 2021 of the adopted "Procedure for deferral and settlement of due liabilities to banks and their subsidiaries - financial institutions in connection with the state of emergency, introduced on 13.03.2020 by the National Assembly, arising from the COVID-19 pandemic ", which is a private moratorium within the meaning of the Guidelines voted by the European Banking Authority (EBA) - EBA / GL / 2020/15 amending Guideline EBA / GL / 2020/02 on legislative and private moratoriums on credit payments in view of the crisis caused by COVID-19.

The changes are related to:

extension of the deadline for submission of a request by clients of the banks for deferral of liabilities and their approval by the banks - until 30 September 2020.
Extension of the deadline for deferral of liabilities of bank customers - until 31 March 2021
Extension of the deferral procedure applies to exposures for which no deferral has been requested before 22 June 2020.

In connection with the pandemic of COVID-19, Allianz Bank Bulgaria AD, based on a letter from the Bulgarian National Bank with ref. № BNB-34578 / 03.04.2020 and pursuant to the Guidelines of the European Banking Authority of 2 April 2020 - Guidelines on legislative and non-legislative moratorium on loan repayments applied in light of the COVID-19 crisis (EBA / GL / 2020/02), as amended by EBA Guidelines (EBA / GL / 2020/08 of 25 June 2020) amending Guideline EBA / GL / 2020/02 and by EBA Guidelines (EBA / GL / 2020/15) of 2 December 2020) amending Guideline EBA / GL / 2020/02, offered its clients the following general options for deferral and settlement of liabilities:

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

- deadline for submission of a request by clients of the banks for deferral of liabilities – until 23 March 2021;
- the deadline for approval of these requests by the banks - until 31 March 2021;
- deadline for deferral of liabilities of bank customers - until 31 December 2021, no more than 9 months;
- introduction of a requirement that the obligations subject to the moratorium were regular or overdue for less than 90 days as of the date of submission of the request for rescheduling;
- introduction of the possibility for the obligations for which a request for deferment was submitted before 30 September 2020 to be able to be additionally deferred, as the total period of all deferrals does not exceed 9 months.

The table below provides information on the distribution of loans with applied measured under the moratorium in the loan portfolio of Allianz Bank Bulgaria AD by Phases within the meaning of IFRS 9, for each of the products offered by the Bank as at 31. December 2021 and 2020.

*In BGN thousand*

| **Loan type** | **Mortgage loans Moratorium** | **Consumer loans Moratorium** | **Other loans** | **Working capital loans Moratorium** | **Investment loans Moratorium** | **Total** |
|---|---|---|---|---|---|---|
| COVID19 Phase 1 (Regular) | 19,463 | 2,880 | 610 | 22,449 | 51,066 | 96,468 |
| COVID19 Phase 2 (Under supervision) | 6,162 | 1,120 | 2,913 | 1,589 | 4,130 | 15,914 |
| COVID19 Phase 3 (Non-performing) | 5,816 | 1,321 | 1,244 | - | 360 | 8,741 |
| **Total gross value before impairment COVID-19** | **31,441** | **5,321** | **4,767** | **24,038** | **55,556** | **121,123** |
| COVID19 Phase 1 (Regular) Impairment | (170) | (51) | (5) | (757) | (1,347) | (2,330) |
| COVID19 Phase 2 (Under supervision) Impairment | (498) | (111) | (52) | (92) | (244) | (997) |
| COVID19 Phase 3 (Regular) Impairment | (4,699) | (1,321) | (1,244) | - | (360) | (7,624) |
| **COVID19 Total losses from impairment** | **(5,367)** | **(1,483)** | **(1,301)** | **(849)** | **(1,951)** | **(10,951)** |
| COVID19 Phase 1 (Regular) additional impairment (Management Overlay) | (1,497) | (190) | (158) | (6,087) | (8,045) | (15,977) |
| COVID19 Phase 2 (Under supervision) additional impairment(Management Overlay) | (1,049) | (467) | (1,169) | (785) | (1,087) | (4,557) |
| COVID19 Phase 3 (Non-performing) additional impairment Management overlay | - | - | - | - | - | - |
| **COVID19 Losses from additional impairment (Management Overlay)** | **(2,546)** | **(657)** | **(1,327)** | **(6,872)** | **(9,132)** | **(20,534)** |
| COVID19 Phase 1 (Regular) Impairment | (1,667) | (241) | (163) | (6,844) | (9,392) | (18,307) |
| COVID19 Phase 2 (Regular) Impairment | (1,547) | (578) | (1,221) | (877) | (1,331) | (5,554) |
| COVID19 Phase 3 (Regular) Impairment | (4,699) | (1,321) | (1,244) | - | (360) | (7,624) |
| **COVID19 Total losses from impairment** | **(7,913)** | **(2,140)** | **(2,628)** | **(7,721)** | **(11,083)** | **(31,485)** |
| **Total net carrying amount as at 31 December 2020** | **23,528** | **3,181** | **2,139** | **16,317** | **44,473** | **89,638** |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

*In BGN thousand*

| | **2020** | | | | | |
|---|---|---|---|---|---|---|
| **Loan type** | **Mortgage loans Moratorium** | **Consumer loans Moratorium** | **Other loans** | **Working capital loans Moratorium** | **Investment loans Moratorium** | **Total** |
| COVID-19 Phase 1 (Regular) | 24,442 | 4,504 | 1,250 | 22,961 | 63,283 | 116,440 |
| COVID-19 Phase 2 (Under supervision) | 5,418 | 1,554 | 4,040 | 2,460 | 5,370 | 18,842 |
| COVID-19 Phase 3 (Non-performing) | 6,321 | 1,125 | 1,980 | - | 363 | 9,789 |
| **Total gross value before impairment COVID-19** | **36,181** | **7,183** | **7,270** | **25,421** | **69,016** | **145,071** |
| COVID-19 Phase 1 (Regular) Impairment | (191) | (69) | (5) | (750) | (741) | (1,756) |
| COVID-19 Phase 2 (Under supervision) Impairment | (572) | (160) | (69) | (160) | (358) | (1,319) |
| COVID-19 Phase 3 (Regular) Impairment | (3,969) | (1,103) | (1,980) | - | (363) | (7,415) |
| **COVID-19 Total losses from impairment** | **(4,732)** | **(1,332)** | **(2,054)** | **(910)** | **(1,462)** | **(10,490)** |
| COVID-19 Phase 1 (Regular) additional impairment (Management Overlay) | (2,107) | (316) | (82) | (2,944) | (7,519) | (12,968) |
| COVID-19 Phase 2 (Under supervision) additional impairment (Management Overlay) | (390) | (519) | (519) | (368) | (629) | (2,425) |
| COVID-19 Phase 3 (Non-performing) additional impairment Management overlay | - | - | - | - | - | - |
| **COVID-19 Losses from additional impairment (Management Overlay)** | **(2,497)** | **(835)** | **(601)** | **(3,312)** | **(8,148)** | **(15,393)** |
| COVID-19 Phase 1 (Regular) Impairment | (2,298) | (385) | (87) | (3,694) | (8,260) | (14,724) |
| COVID-19 Phase 2 (Regular) Impairment | (962) | (679) | (588) | (528) | (987) | (3,744) |
| COVID-19 Phase 3 (Regular) Impairment | (3,969) | (1,103) | (1,980) | - | (363) | (7,415) |
| **COVID-19 Total losses from impairment** | **(7,229)** | **(2,167)** | **(2,655)** | **(4,222)** | **(9,610)** | **(25,883)** |
| **Total net carrying amount as at 31 December 2020** | **28,952** | **5,016** | **4,615** | **21,199** | **59,406** | **119,188** |

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

The distribution of loans by residual term of the moratorium measures is presented in the following table:

| *In BGN thousand* | 2021 | |
|---|---|---|
| | **Out of which: Expired** | **Total** |
| COVID19 Phase 1 (Regular) | 96,468 | 96,468 |
| COVID19 Phase 2 (Under supervision) | 15,914 | 15,914 |
| COVID19 Phase 3 (Non-performing) | 8,741 | 8,741 |
| **Total gross value before impairment COVID19** | **121,123** | **121,123** |
| COVID19 Phase 1 (Regular) Impairment | 18,307 | 18,307 |
| COVID19 Phase 2 (Under supervision) Impairment | 5,554 | 5,554 |
| COVID19 Phase 3 (Regular) Impairment | 7,624 | 7,624 |
| **COVID19 Total losses from impairment** | **31,485** | **31,485** |
| **Net carrying value COVID19** | **89,638** | **89,638** |

| *In BGN thousand* | 2020 | | |
|---|---|---|---|
| | **Out of which: Expired** | **Residual term of the moratoriums <= 3 months** | **Total** |
| COVID-19 Phase 1 (Regular) | 115,621 | 819 | 116,440 |
| COVID-19 Phase 2 (Under supervision) | 18,671 | 171 | 18,842 |
| COVID-19 Phase 3 (Non-performing) | 9,768 | 21 | 9,789 |
| **Total gross value before impairment COVID-19** | **144,060** | **1,011** | **145,071** |
| COVID-19 Phase 1 (Regular) Impairment | 14,657 | 67 | 14,724 |
| COVID-19 Phase 2 (Under supervision) Impairment | 3,709 | 35 | 3,744 |
| COVID-19 Phase 3 (Regular) Impairment | 7,394 | 21 | 7,415 |
| **COVID-19 Total losses from impairment** | **25,760** | **123** | **25,883** |
| **Net carrying value COVID-19** | **118,300** | **888** | **119,188** |

*Operational plan for implementation of the measures for deferral and settlement of liabilities*

The Management Board and the Supervisory Board of the Bank perform adequate supervision over the critical elements of credit risk management, including the following:

- Review of risk-taking standards, risk appetite framework and strategy in realistic macroeconomic scenarios;
- Adequate monitoring and analysis of all changes in the prudential and accounting frameworks;
- Appropriate delegation of competencies and powers to experts and working groups in the Bank for dealing with the impact of the COVID-19 crisis.

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

*Operational plan for implementation of the measures for deferral and settlement of liabilities (continued)*

In order to ensure a disciplined and effective division of responsibilities in the processes of providing loans, monitoring, restructuring and loan collection processes, an adequate organizational structure has been approved to ensure that activities allocated to individual functions and roles in the first and the second line of defense to achieve a rapid response to the COVID-19 pandemic.

The following departments have been established under the Risk Management Division:

- Risk Control and Reporting Department with Credit Risk, Monitoring and Provisioning Section, which is responsible for monitoring the credit exposures and the Bank's portfolio;
- Credit Risk Department with competencies to approve new transactions;
- Non-Performing Loans Department with the Negotiation and Restructuring Section with competencies to take decisions for renegotiation and restructuring of the Bank's credit exposures.

The measure (s) granted by the Bank under the approved mechanisms for deferral and settlement of debtors' obligations subject to a moratorium on payments do not automatically lead to the reclassification of exposures as exposures with restructuring measures, the classification being considered on a case-by-case basis in accordance with Article 47b of Regulation (EU) № 575/2013.

For the purposes of Article 178 (1) (b) of Regulation (EU) № 575/2013 and in accordance with Article 178 (2) (e) of that Regulation, the Bank shall report the days in arrears on the basis of the amended payment plan, arising from the application of the moratorium. Similarly, for the purposes of Article 47a (3) (c) of Regulation (EU) № 575/2013, the Bank shall report the days in arrears on the basis of the amended payment plan, arising from the application of the moratorium.

During the moratorium period, the Bank assesses the potential probability of default of debtors covered by the moratorium in accordance with the policies and practices it applies to such assessments, including when they are based on automatic checks for signs of default.

When performing individual assessments of individual debtors, the Bank gives priority to the assessment of debtors for whom the consequences of the COVID-19 pandemic are likely to lead to long-term financial difficulties or insolvency. The Bank assesses the probability of default on the basis of the most up-to-date payment plan resulting from the application of the overall moratorium on payments.

In assessing the probability of default, the Bank takes into account all additional support measures provided that may affect the creditworthiness of the debtor:

- consumer loans to individuals under the BDB Program for guaranteeing interest-free loans to help people deprived of the opportunity to work due to the pandemic of COVID-19 and
- granting / renegotiating loans under the Portfolio Guarantee Program in support of the liquidity of micro, small and medium enterprises (SMEs) affected by the emergency situation and the epidemic of COVID-19 of the Bulgarian Development Bank AD.

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

### Credit risk analysis in connection with the COVID-19 pandemic (continued)

*Operational plan for implementation of the measures for deferral and settlement of liabilities (continued)*

Any form of credit risk mitigation, including through guarantees from Bulgarian Development Bank AD, does not affect the results of the assessment of the potential probability of default by borrowers who have benefited from the moratorium after its expiration. When the borrower has other exposures to the Bank that are not subject to a moratorium, the Bank takes into account the impact and results of these exposures in assessing the lessee's ability to comply with the terms of payment after the moratorium expires.

The Bank assesses the potential probability of default by borrowers who have benefited from the moratorium and their related parties, after its expiration, in the following cases:
- Before granting new loans to debtors benefited from the moratorium on the basis of individual assessment;
- Before renegotiating / restructuring existing obligations of debtors benefiting from the moratorium, subject to a moratorium on payments based on individual assessment;
- Monthly on the basis of a systematic inspection during the moratorium;
- At least once a year after submission of the financial statements during the annual review of the debtor and its related parties on the basis of individual assessment;
- After the expiration of the moratorium measure based on a systematic and individual assessment.

The Bank performs an individual assessment of the probability of default in respect of individual debtors after the end of the moratorium in the following cases:
- where debtors delay payment by more than 30 days within 12 months of the end of the moratorium;
- where restructuring measures are applied to a debtor for whom a moratorium rescheduling has been applied after the expiry of the moratorium;

In addition to the above cases, an extraordinary individual assessment is carried out after the end of the moratorium in the following cases:
- the client's exposure is over BGN 500.000;
- The exposure is included in the list for monitoring.
- the customer's rating results in a Phase 3 classification within the meaning of IFRS 9.

*Indicators of probability of default*

The Bank recognizes exposures as probable of default and identifies indications of probable default in accordance with Section 5 of the EBA Guidelines on the application of the default definition. In assessing the probability of default, the Bank , in accordance with Annex V to Commission Implementing Regulation (EU) No. 680/2014, shall consider at least the following rebuttable circumstances:
- Delay of more than 30 days during the moratorium or up to 12 months thereafter;
- The debtor's internal rating indicates default;
- Implement restructuring measures within 12 months after the moratorium expires;
- Overdue for more than 90 days for any credit exposure of the debtor or related parties;

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

*Indicators of probability of default (continued)*

- Existence of another non-performing exposure of the debtor and / or a related party with restructuring measures, according to Regulation (EU) № 680/2014;
- The debtor has another exposure classified as impaired;
- The debtor has been declared in liquidation / bankruptcy.

*Measuring expected credit loss (ECL)*

The changes caused by the COVID-19 crisis require the Bank to provide adequate assessment of its exposures and measurement of expected credit loss (ECL). The future effects of the current economic situation and the measures taken are difficult to predict, and management's current expectations and assessments may differ from actual results.

For the purpose of measuring expected credit loss (ECL), the Bank applies factors such as forward-looking information (FLI), including forecasts for macroeconomic variables. As with any economic forecast, forecasts and the probability of their occurrence are subject to a high degree of inherent uncertainty and therefore actual results may differ significantly from those forecast.

*Macroeconomic forecasts for the purposes of IFRS 9*

The Bank bases its forecasts on regularly published macroeconomic forecasts of the European Central Bank (ECB) and the Bulgarian National Bank (BNB) without using only long-term averages. In this way, it achieves the right balance between avoiding excessive pro-cyclicality, while at the same time the risks it faces are adequately reflected in the reports and models.

The most important macroeconomic variables assessed in relation to forward-looking information (FLI) as of 31 December 2021 are as follows:

| Macroeconomic variable | Baseline scenario | Pessimistic scenario | Optimistic scenario |
|---|---|---|---|
| annual GDP growth | 4.60 | 1.94 | 4.90 |
| annual unemployment growth | 4.93 | 8.02 | 4.70 |
| harmonized consumer price index | 2.10 | 0.23 | 2.0 |

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

The Bank has adopted a conservative approach and its input risk parameters and models are in line with the observed significant deterioration of the economic environment. Model results show higher levels of probability of default (PD) than those underlying the current observed migrations resulting from the COVID-19 pandemic.

Notwithstanding the measures taken related to COVID-19, in connection with the annual review and updating of risk parameters and models, the Bank has taken the following actions:

- The Bank has updated the documentation related to the rating models that it uses to calculate the probability of default (PD), and has explicitly defined the targets for each of the variables through which it monitors the strength of the model.
- As at 31.12. 2021, the Bank has made the necessary changes to the models so as to ensure the effectiveness of the models by expanding the test set and by updating with the latest data, using training sets (for a 5-year period from 28.11.2014 to 30.11.2020), examining the behavior of the debtors of the Bank until 30.11.2020. All changes have been made and integrated into the systems of the Bank. The results of the new models are documented in the PD methodology.
- An internal methodology has been developed based on observations of the portfolio of Allianz Bank Bulgaria AD. Based on this methodology, the current values for Lifetime PD were calculated.
- As at 31/12/2021 the Bank has updated the models for calculating the risk parameters: forward-looking information (FLI), loss given default (LGD) and credit conversion factor (CCF). In connection with the assessment of the adequacy of the models, an analysis of the series of data was made, including for stationarity, autocorrelation, error, stability, prediction accuracy tests. The changes in the models are documented.

Pessimistic scenarios are included with the greatest weight in the models for calculating forward-looking information (FLI) for probability of default (PD), loss given default (LGD) and credit conversion factor (CCF). The balanced distribution of the alternative scenarios around the baseline scenario set in the ECB forecasts is achieved through the established models.

Weighing the scenarios for calculating forward-looking information (FLI):

| | Optimistic scenario | Baseline scenario | Pessimistic scenario |
|---|---|---|---|
| 2021 | 49% | 10% | 41% |
| 2022 | 46% | 9% | 45% |

Weighing scenarios for calculating loss given default (LGDs):

| | Optimistic scenario | Baseline scenario | Pessimistic scenario |
|---|---|---|---|
| 2021 | 26% | 33% | 41% |
| 2022 | 31% | 8% | 60% |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

Weighing scenarios for calculating credit conversion factor (LGDs):

| | Optimistic scenario | Baseline scenario | Pessimistic scenario |
|---|---|---|---|
| 2021 | 38% | 17% | 45% |
| 2022 | 37% | 15% | 49% |

*Assessment of the significant increase in credit risk*

The Bank adequately assesses all risk parameters in order to correctly reflect the increased credit risk, both for the purposes of risk-weighted assets and for the purposes of calculating impairment provisions. To this end, the Bank considers the effects of COVID-19 and related mitigation measures (such as government guarantees and moratoriums) in the process of determining the ratings of each client and quantifying the risk parameter, in accordance with regulatory requirements and approved models and processes, and complying with the requirements of Regulation (EU) 529/2014.

Any change in each component or variable of the PD model implies an assessment of the materiality of the change in the model and approval by the relevant competent authorities of the Bank. In line with the significant deterioration of the economic environment, the granting of payment moratoriums does not lead to improvements in the values of risk indicators compared to those observed before COVID-19.

For moratoriums that do not meet EBA requirements, the restructuring measure is a factor that participates in the model and leads to the award of the most negative rating D (PD 100%) for those classified in Phase 3 or the deterioration of the rating and application of lifetime PD as a result of the Phase 2 classification.

The moratorium on payments in relation to COVID-19, which allows, requires or encourages the suspension or delay of payments, is not considered an automatic trigger to trigger estimates of significant increase in credit risk (SICR). The significant increase in credit risk is identified at the earliest possible stage, in practice as soon as the moratorium measure is granted, regardless of the rating system's assessment.

The table below presents information on the origin of the movement between the Phases within the meaning of IFRS 9 for loans with provided measures under the moratorium in the credit portfolio of Allianz Bank Bulgaria EAD for 2021 and 2020.

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

| | Provisions | | | | Gross book value | | | |
|---|---|---|---|---|---|---|---|---|
| ***Loans*** | **Phase 1** | **Phase 2** | **Phase 3** | **Total** | **Phase 1** | **Phase 2** | **Phase 3** | **Total** |
| **1.01.2021** | **14,724** | **3,744** | **7,415** | **25,883** | **116,440** | **18,842** | **9,789** | **145,071** |
| *Changes that affected the provisioning expense over the period* | 3,583 | 1,810 | 209 | **5,602** | (19,972) | (2,928) | (1,048) | **(23,948)** |
| Changes due to migration from Phase 1 to Phase 2 | (111) | 111 | - | **-** | (2,633) | 2,633 | - | **-** |
| Changes due to migration from Phase 1 and Phase 2 to Phase 3 | (42) | (317) | 359 | **-** | (399) | (1,051) | 1,450 | **-** |
| Changes due to migration from Phase 2 and Phase 3 to Phase 1 | - | - | - | - | - | - | - | - |
| Increases due to occurrence and acquisition | 3,713 | 1,115 | 1,881 | **6,709** | 1,011 | 1,082 | 18 | **2,111** |
| Increases due to COVID19 Losses from additional impairment (Management Overlay) | 2,449 | 2 132 | - | **4,581** | - | - | - | **-** |
| - Changes due to repayments | (2,426) | (1,231) | (2,031) | **(5,688)** | (17,951) | (5,592) | (2,516) | **(26,059)** |
| **31.12.2021** | **18,307** | **5,554** | **7,624** | **31,485** | **96,468** | **15,914** | **8,741** | **121,123** |

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

| | Provisions | | | | Gross book value | | | |
|---|---|---|---|---|---|---|---|---|
| ***Loans*** | **Phase 1** | **Phase 2** | **Phase 3** | **Total** | **Phase 1** | **Phase 2** | **Phase 3** | **Total** |
| **01.01.2020)** | **1,919** | **681** | **3,777** | **6,377** | **131,421** | **8,879** | **6,042** | **146,342** |
| *Changes that affected the provisioning expense over the period* | 12,805 | 3,063 | 3,638 | **19,506** | (14,981) | 9,963 | 3,747 | **(1,271)** |
| Changes due to migration from Phase 1 to Phase 2 | (135) | 135 | - | **-** | (11,464) | 11,464 | - | **-** |
| Changes due to migration from Phase 1 and Phase 2 to Phase 3 | (20) | (96) | 116 | **-** | (2,585) | (1,304) | 3,889 | **-** |
| Changes due to migration from Phase 2 and Phase 3 to Phase 1 | 1 | (1) | - | **-** | 130 | (62) | (68) | **-** |
| Increases due to occurrence and acquisition | 655 | 729 | 3,854 | **5,238** | 5,524 | 1,806 | 380 | **7,710** |
| Increases due to COVID19 Losses from additional impairment (Management Overlay) | 12,968 | 2,425 | - | **15,393** | - | - | - | **-** |
| Changes due to repayments | (664) | (129) | (332) | **(1,125)** | (6,586) | (1,941) | (454) | **(8,981)** |
| **31 DECEMBER 2020** | **14,724** | **3,744** | **7,415** | **25,883** | **116,440** | **18,842** | **9,789** | **145,071** |

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

For all exposures affected by the COVID-19 crisis, the Bank applies additional Management Overlays provision (Adjustment by decision of the management related to expected credit losses) under the following conditions:

- The amount of the Management Overlays provision (Adjustment by decision of the management related to expected credit losses) is measured in the case of migration from Phase 1 to Phase 2 and a change in the rating by 1 degree, without a change in the other risk parameters.

- For all exposures for which a Management Overlays provision (Adjustment by decision of the management related to expected credit losses) is accounted for, in the event of a significant increase in credit risk, the exposure is reclassified to Phase 2 and the Management Overlays provision is reintegrated. In the event that an impairment trigger is identified, the exposure is reclassified to Phase 3 and the corresponding provisions are accrued.

| *In BGN thousand* | **2021** | | | |
|---|---|---|---|---|
| | **Gross value before impairment COVID-19** | **COVID-19 Total losses from impairment** | **Management Overlays** | **Total** |
| COVID-19 Phase 1 (Regular) | 96,468 | (2,330) | (15,977) | (18,307) |
| COVID-19 Phase 2 (Under supervision) | 15,914 | (997) | (4,557) | (5,554) |
| **Total** | **112,382** | **(3,327)** | **(20,534)** | **(23,861)** |

| *In BGN thousand* | **2020** | | | |
|---|---|---|---|---|
| | **Gross value before impairment COVID-19** | **COVID-19 Total losses from impairment** | **Management Overlays** | **Total** |
| COVID-19 Phase 1 (Regular) | 116,440 | 1,756 | 12,968 | 14,724 |
| COVID-19 Phase 2 (Under supervision) | 3,540 | 257 | 2,425 | 2,682 |
| **Total** | **119,980** | **2,013** | **15,393** | **17,406** |

The updated criteria for provisioning the portfolio in the light of the COVID-19 crisis have been applied since 19.05.2020 on the basis of a decision of the Bank's Risk Committee.

For loans subject to a moratorium, the Bank has adopted the additional Phase 2 and 3 transfer triggers required by IFRS 9.B5.5.1 to IFRS 9.B5.5.18. Overdue-based triggers are not a factor in the assessment for Phase 2, given that overdue days are reported only on the basis of the revised payment schedule.

In addition, for moratorium exposures, the Bank further reflects the restructuring in the award of the PD parameter based on the lifetime PD default and a one-step conservative rating change, adopting a conservative approach, although the applied model explicitly includes the deterioration of the probability of default as a result of the deterioration of the macro environment.

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

The Bank applies a conservative approach to the Phase-shift triggers within the meaning of IFRS 9, defined on the basis of each deterioration with one grade to which the corresponding absolute PD corresponds. The Bank has not introduced higher relative thresholds for switching between Phases for debtors with higher PDs or lower ratings. Phase transfer rules have not changed as a result of the COVID-19 pandemic, i.e. in the event of occurrence or more variable rating migrations.

The Bank adheres to good practices by applying the provision calculating approach in the case of the transfer to Phase 2 for those cases in which individual assessments are not possible or the usual indicators do not work.

The calculation of provisions for Phase 2 applies to all exposures with moratorium measures that are not classified in Phase 3. This approach allows for the timely recognition of the effects of the coronavirus pandemic (COVID-19) and eliminates any need for a "huge upward revision" at a later stage.

The Bank takes into account IFRS 9.5.5.11. and considers that all COVID-19 exposures overdue for more than 30 days have undergone a significant increase in credit risk and charges them for Phase 3 provisions.

In addition to the statistics in accordance with IFRS 9.B5.18, the Bank also uses qualitative information to determine which exposures require expected lifelong losses to be recognized.

The information used for this purpose is in line with the impairment triggers used in monitoring clients and portfolios and also includes elements such as the restructuring measure applied, increased indebtedness, payment volatility and violation of lending policies. In this regard, the Bank has adopted an operational plan for assessing the probability of default.

In connection with the requirements of IFRS 9.B5.5.17 (f) and IAS 9.B5.5.17 (i) the Bank performs a sector analysis, thus taking into account any adverse changes in the borrower's business, financial and economic environment. The Bank has in mind that borrowers are affected (directly or indirectly) by the coronavirus pandemic (COVID-19) to varying degrees, depending on their sector. In this respect, macroeconomic information and / or the adverse business impact on specific sectors may in themselves indicate that there is a significant increase in credit risk for adversely affected exposures.

The Bank may make a transfer to Phase 2 only due to these specific circumstances, unless there is more detailed information to indicate that the exposures may still remain in Phase l.

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

### Credit risk analysis in connection with the COVID-19 pandemic (continued)

| *In BGN thousand* | **2021** | | |
|---|---|---|---|
| **Concentration by sector of COVID-19 exposures** | **Gross value before impairment COVID-19** | **COVID-19 Total losses from impairment** | **COVID-19 Losses from additional impairment (Management Overlay)** |
| State government | - | - | - |
| Administrative and auxiliary activities | - | - | - |
| Operations with Real Estate | 7,059 | 198 | 1,043 |
| Manufacturing | 3,694 | 191 | 22 |
| Production and distribution of electricity and heat energy | 2,417 | 14 | 35 |
| Professional activities and research | 211 | 8 | - |
| Agriculture, forestry and fishery | 391 | 31 | - |
| Construction | 200 | 133 | - |
| Creation and dissemination of information and creative products; telecommunications | 14 | - | - |
| Transport, storage and mail | 781 | 15 | 43 |
| Trade, repair of motor vehicles and motorcycles | 7,965 | 365 | 2,070 |
| Financial and insurance services | 67 | 1 | - |
| Hospitality and restaurant business | 55,837 | 1,762 | 12,757 |
| Other | 5,725 | 1,383 | 1,361 |
| | **84,361** | **4,101** | **17,331** |
| **Loans to the population** | | | |
| Mortgage | 31,441 | 5,367 | 2,546 |
| Consumer | 5,321 | 1,483 | 657 |
| | **36,762** | **6,850** | **3,203** |
| **Total** | **121,123** | **10,951** | **20,534** |

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

| *In BGN thousand* | 2020 | | |
|---|---|---|---|
| **Concentration by sector of COVID-19 exposures** | **Gross value before impairment COVID-19** | **COVID-19 Total losses from impairment** | **COVID-19 Losses from additional impairment (Management Overlay)** |
| State government | - | - | - |
| Administrative and auxiliary activities | 452 | 5 | 5 |
| Operations with Real Estate | 9,401 | 259 | 1,530 |
| Manufacturing | 4,307 | 262 | 15 |
| Production and distribution of electricity and heat energy | 5,149 | 28 | 88 |
| Professional activities and research | 1,025 | 425 | 0 |
| Agriculture, forestry and fishery | 2,656 | 113 | 187 |
| Construction | 688 | 277 | 5 |
| Creation and dissemination of information and creative products; telecommunications | 293 | 3 | 2 |
| Transport, storage and mail | 7,130 | 398 | 359 |
| Trade, repair of motor vehicles and motorcycles | 10,710 | 1,272 | 1,456 |
| Financial and insurance services | 162 | 8 | 0 |
| Hospitality and restaurant business | 57,141 | 1,191 | 8,318 |
| Other | 2,593 | 185 | 96 |
| | **101,707** | **4,426** | **12,061** |
| **Loans to the population** | | | |
| Mortgage | 36,181 | 4,732 | 2,497 |
| Consumer | 7,183 | 1,332 | 835 |
| | **43,364** | **6,064** | **3,332** |
| **Total** | **145,071** | **10,490** | **15,393** |

The Bank has performed the relevant analyzes, from which it is necessary to conclude that the adverse effects arising from the business, financial and economic environment do not affect the entire portfolio. Allianz bank Bulgaria AD applies analytical approaches to systematically determine which parts of the portfolio have not undergone a significant increase in credit risk. The assessments are supported by the individual ratings of each debtor.

Restructuring measures that are not in line with the EBA guidelines on the payment moratorium lead to a transfer to at least Phase 2. Based on the technical criteria: Defaulted Flag, number of restructuring measures, overdue status, the Bank assigns each exposure to a pre-defined risk classification group. In the event of a delay of more than 30 days or other impairment triggers, the exposure is classified in Phase 3.

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

***Financial assets - modification***

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, the Bank recalculates the gross carrying amount of the financial asset and recognizes a profit or loss on modification in profit or loss.

The gross carrying amount of a financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or the credit loss-adjusted effective interest rate for purchased or initially created financial impairment assets), or, where applicable, the revised effective interest rate calculated in accordance with paragraph 6.5.10 of IFRS 9.

In a situation where the renegotiation is due to financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the initial and revised expected cash flows with the assets whether the risks and rewards of the asset are significantly different as a result of contract modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition.

The moratoriums on payment granted by the Bank in response to the COVID-19 pandemic are treated as contractual modifications of the respective loan and advance agreements. Their impact on gross carrying amount (loss from modification) is presented in profit or loss.

If the modified terms are materially different, the rights to cash flows from the original asset expire the Bank derecognizes the original financial asset and recognizes a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for the purposes of the subsequent calculation of impairment, including the determination of whether a significant increase in credit risk (SICR) has occurred.

The Bank also assesses whether the new loan or debt instrument meets the criteria for the SPPI test - solely payment of principal and interest on the outstanding principal amount.

Any difference between the carrying amount of the original asset derecognized and fair value of the new substantially modified asset is recognized in profit or loss.

**Measures taken by the Management in connection with overcoming the crisis situation:**

In accordance with the measures taken by the Government of the country and the Governing Council of the Bulgarian National Bank, the Bank's Management has taken a number of actions and measures related to:

- Organization for ensuring the continuity of services and processes;
- Working conditions and a safe environment tailored to the situation, with a focus on healthy and safe working conditions;
- Communication and monitoring of the status of the situation with COVID-19;
- Information technology and infrastructure;
- Customer service and compliance;
- Key indicators for the performance and results of the Bank have been defined.

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

*Measures to mitigate the effects of the crisis and protect business*

- Introduction of credit limits for certain sectors, industries and products;
- Identification of critical business activities and alternative substitutes;
- Credit risk coverage measures - supervisory regulations, daily monitoring of early signals of deterioration, monitoring of sources for loan repayment, monitoring of defined critical indicators in the loan portfolio, collateral and additional analyzes;
- Measures to cover market risk - strict monitoring, calculation of "Value at risk", stress tests, asset and liability management;
- Active communication with clients with exposures larger than BGN 500,000, pending operational and liquidity problems.

**Sensitivity analysis**

For credit risk management, the sensitivity of the Bank's financial assets is analyzed in the application of macroeconomic development scenarios related to the spread of COVID-19 globally, which leads to a strong and comprehensive decline in global economic activity. The analysis is applied to the entire loan portfolio of the Bank.

The COVID-19 pandemic generates macroeconomic uncertainty with a direct impact on credit risk, in particular regarding expected credit losses under IFRS 9. Although the situation is unclear and of unpredictable duration, this situation is expected to lead to lower-than-pre-crisis GDP levels after economic recovery.

This situation allowed the accounting authorities and banking supervisors to take measures to mitigate the effects on the calculation of expected credit losses under IFRS 9, as well as on solvency, insisting on: entities to evaluate all available information, weighing more long-term forecasts than short-term ones, governments to take measures to avoid the effects of impairment, entities to develop management measures adapted to the situation that may arise during this crisis. The common denominator of all these recommendations is that given the difficulty of establishing reliable macroeconomic forecasts, the transition period of economic shock and the need to include the effect of mitigation measures issued by governments, to adapt models to increase the burden of long-term macroeconomic forecasts when calculating expected credit losses.

The Bank has taken these recommendations into account when calculating expected credit losses under IFRS 9, given that the economic situation caused by the COVID-19 pandemic is transient and will be followed by recovery, even if there is uncertainty about the level and time frame of such recovery.

As a result, different scenarios have been taken into account when calculating expected credit losses. In addition to the result of the scenario calculations, the analyzes of the exposures that could be most affected by the circumstances caused by COVID-19 were taken into account. Sensitivity analysis of expected credit losses due to variations in key hypotheses was performed. The macroeconomic parameters for each of the scenarios are presented in the following table.

## 6. Disclosure of the financial risk management policy, continued

### (b) Credit Risk (continued)

**Credit risk analysis in connection with the COVID-19 pandemic (continued)**

**Macroeconomic parameters for each of the scenarios**

| | Baseline scenario | Adverse scenario |
|---|---|---|
| annual GDP growth | 4.60 | 1.94 |
| annual unemployment growth | 4.93 | 8.02 |
| harmonized consumer price index | 2.10 | 0.23 |

The projected impacts are based on the characteristics of each asset class, the impact of COVID-19 and the current default levels for each of the portfolios. The projected losses due to default are the result of the projected values of macroeconomic variables.

The impact on the Bank's financial performance is a result of the hypothetical deterioration in the quality of the loan portfolio and the corresponding increase in impairment charges.

**n BGN thousand**

| Loan type | Statement 31.12.2021 Total | Baseline scenario Total | Difference of baseline scenario vs statement Total | Adverse scenario Total | Difference of adverse scenario vs statement Total | COVID-19 Losses from additional impairment (Management Overlay) Total |
|---|---|---|---|---|---|---|
| Phase 1 (Regular) | 1,561,422 | 1,561,422 | - | 1,561,422 | - | 96,468 |
| Phase 2 (Under supervision) | 101,638 | 101,638 | - | 101,638 | - | 15,914 |
| Phase 3 (Non-performing) | 56,994 | 56,994 | - | 56,994 | - | 8,741 |
| **Total Gross value before impairment** | **1,720,054** | **1,720,054** | **-** | **1,720,054** | **-** | **121,123** |
| Phase 1 (Regular) | 34,712 | 31,274 | (3,438) | 35,217 | 505 | 15,978 |
| Phase 2 (Under supervision) | 10,426 | 10,236 | (190) | 11,581 | 1,155 | 4,557 |
| Phase 3 (Non-performing) | 52,036 | 52,036 | - | 52,036 | - | - |
| **Impairment losses** | **97,174** | **93,546** | **(3,628)** | **98,834** | **1,660** | **20,535** |
| **Carrying amount** | **1,622,880** | **1,626,508** | **3,628** | **1,621,220** | **(1,660)** | **100,588** |

Based on the performed sensitivity analysis, the Bank has taken into account all potential negative effects of the COVID-19 crisis, and has developed and implemented an operational plan for assessing the probability of default for each specific exposure.

The Bank has taken the necessary measures to ensure its stability in the event of continued deterioration of the economic environment and the resulting negative trends in the quality of the loan portfolio, increasing credit risk impairments and potential pressure on profitability and capital position of the Bank.

**6. Disclosure of the financial risk management policy, continued**

**(b) Credit Risk (continued)**

The potential negative effects of the COVID-19 crisis have been assessed and recognized in a timely manner, and for this purpose as of 31.12.2021 additional provisions (Management Overlays provisions) have been set aside in the amount of BGN 20,535 thousand.

**(c) Liquidity Risk**

Liquidity risk occurs with regard to ensuring funds for the Bank's activities and the management of its positions. It has two dimensions – risk that the Bank will be unable to cover its liabilities when they become due; and risk of inability to realize its assets at a suitable price and within an acceptable timeframe.

***Liquidity risk management***

The Bank's approach to liquidity management is to ensure to the greatest degree possible the ability to always have sufficient liquidity to cover its liabilities when called, both under normal circumstances and in an emergency, without taking extraordinary losses or affecting the Bank's reputation.

The Liquidity and Markets Division receives daily information from the Bank Regulations and Compliance Directorate regarding the volume of financial assets and liabilities , as well as data about other expected cash flows arising from projected future liquidity position management activities. The Liquidity and Markets Division manages a portfolio of liquid assets which consists mainly of liquid securities, loans and receivables from banks, and other money market instruments. The objective is to maintain sufficient liquidity within the Bank as a whole.

Liquidity is monitored daily, and stress tests are performed periodically according to various scenarios which cover both normal and extraordinary market circumstances. All liquidity policies and procedures are subject to review and approval by the ALMC. Daily reports cover the liquidity position of the Bank. A summary report, including analyzes, plans, reports and actions taken, is reviewed and accepted periodically / monthly by the ALMC.

For the purposes of the day-to-day operational liquidity management, the Bank analyzes information on available financial assets and liabilities, on the expected incoming and outgoing cash flows in all significant currencies (BGN, EUR and USD), transactions with unfinished settlement, amount of required minimum reserves with the BNB, ordered and / or received customer money transfers of over BGN 1 million equivalent. Within the business day, continuous monitoring is performed of balances and movements of cash funds within the Bank's account with BNB and with major correspondent banks in foreign currency.

Funds are attracted through a set of instruments including deposits and current accounts, credit lines, other legally regulated borrowings, and equity. Funds from different types of clients are attracted, most of them from citizens and households, as well as from small and medium-sized enterprises. In addition, there are deposits from non-bank financial institutions and credit lines from development banks. An insignificant part of the funds is attracted from the interbank money market. In this way, the opportunity for flexibility when financing the activities of Allianz Bank Bulgaria AD is increased, the dependence on one source of funds is reduced, and the value of attracted resource is decreased. The Bank aims to maintain balance between term and attracted resource, and flexibility in the use of funds with different maturity structure.

## 6. Disclosure of the financial risk management policy, continued

### (c) Liquidity Risk (continued)

The Bank performs current assessments of liquidity risk by identifying and tracking changes with regard to the need for funds to achieve the aims embedded in the overall strategy of Allianz Bank Bulgaria AD. In addition, the Bank owns and maintains a portfolio of liquid assets as part of its liquidity risk management system.

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***Liquidity risk exposure***

For liquidity risk monitoring and management, the Bank calculates various indicators such as the secondary liquidity ratio (recommended by the BNB in Ordinance No. 11), liquidity coverage ratio (LCR), net stable funding ratio (NSFR), additional liquidity monitoring indicators and survival period. Liquid assets /liquidity buffer/ for the Bank is determined on the basis of EU Regulation 2015/61 -
supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council as regards the liquidity coverage requirement for credit institutions. According to the requirements of the regulation, liquid assets are: Level 1 assets - coins and banknotes, claims on the central bank, claims on central and local government, multilateral development banks awarded 0% risk weight.

The liquidity coverage ratio is expressed as a percentage and set at a minimum level of 100% when fully implemented, indicating that the credit institution holds sufficient liquid assets to meet its net liquid outflows over a stress period of 30 calendar months. days. It is calculated as the ratio of the bank's "liquid assets" buffer to its "net liquid outflows" over a stress period of 30 calendar days.

The Bank maintains a portfolio of liquid assets, which consists mainly of liquid securities (central government assets), coins and banknotes, central bank reserves and other money market instruments called liquid resources. For the purposes of the LCR, the Bank calculates the amount of its liquid assets at market value less blocked securities / free of liquid assets.

The amount of key parameters as of 31 December 2021 and 31 December 2020 is as follows:

| | **31.12.2021** | **31.12.2020** |
|---|---|---|
| | BGN thousand / % | BGN thousand / % |
| Liquid buffer | 1,619,611 | 1,323,491 |
| Net liquid outflows | 529,837 | 290,070 |
| Liquidity coverage ratio (%) | 305.68% | 456.27% |

## 6. Disclosure of the financial risk management policy, continued

### (c) Liquidity Risk (continued)

***Residual maturity of financial assets and liabilities***

The table below presents the undiscounted cash flows of the Bank's financial assets and liabilities and unrecognized credit commitments based on the earliest possible maturity date. Gross Nominal incoming (outgoing) Cash Flow is the agreed undiscounted cash flow from the financial assets /liabilities or commitment. Interest income or interest expense, respectively, is included in the respective financial asset or liability from the date of the last interest payment until the end of the maturity.

The imbalance observed in the first period of less than a month is mainly due to the inclusion of current accounts for customers in this time period. The Bank's experience shows that customer deposits are expected to maintain a steady or growing balance, and not all unrecognized credit commitments are expected to be absorbed immediately.

| **31 DECEMBER 2021**<br>*In BGN thousand* | **Carrying value** | **Gross nominal incoming / (outgoing) cash flow** | **Less than 1 month** | **From 1 to 3 months** | **From 3 months to 1 year** | **From 1 to 5 years** | **More than 5** |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 936,551 | 936,562 | 926,784 | 9,778 | - | - | - |
| Financial assets measured at FVPL | 3 | 3 | - | - | - | - | 3 |
| Loans and advances to banks | 9,753 | 9,753 | 9,753 | - | - | - | - |
| Investment securities | 1,007,056 | 1,007,845 | - | 87,248 | 76,586 | 483,848 | 360,163 |
| Loans and advances to clients | 1,622,880 | 2,178,442 | 88,602 | 72,212 | 200,503 | 408,379 | 1,408,746 |
| Other financial assets | 1,458 | 1,458 | 1,458 | - | - | - | - |
| | **3,577,701** | **4,134,063** | **1,026,597** | **169,238** | **277,089** | **892,227** | **1,768,912** |
| Deposits from banks | 24,714 | (25,535) | (249) | - | - | - | (25,286) |
| Deposits from clients | 3,306,667 | (3,306,935) | (2,687,846) | (157,387) | (360,924) | (100,778) | - |
| Liabilities under lease agreements | 15,065 | (15,309) | - | - | (2,269) | (8,957) | (4,083) |
| Other long-term borrowed funds | 2,304 | (2,311) | (300) | - | (75) | (1,936) | - |
| Other financial liabilities | 5,924 | (5,924) | (5,924) | - | - | - | - |
| | **3,354,674** | **(3,356,014)** | **(2,694,319)** | **(157,387)** | **(363,268)** | **(111,671)** | **(29,369)** |
| Guarantees and letters of credit | 52,767 | (53,748) | (6,382) | (6,986) | (11,613) | (16,154) | (12,613) |
| Unutilized credit commitments: | 181,845 | (184,882) | (48,606) | (46,050) | (81,494) | (8,651) | (81) |
| | **3,589,286** | **(3,594,644)** | **(2,749,307)** | **(210,423)** | **(456,375)** | **(136,476)** | **(42,063)** |

## 6. Disclosure of the financial risk management policy, continued

### (c) Liquidity Risk (continued)

***Residual maturity of financial assets and liabilities (continued)***

| **31 DECEMBER 2020** *In BGN thousand* | **Carrying value** | **Gross nominal incoming / (outgoing) cash flow** | **Less than 1 month** | **From 1 to 3 months** | **From 3 months to 1 year** | **From 1 to 5 years** | **More than 5** |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 981,561 | 981,576 | 981,576 | - | - | - | - |
| Financial assets measured at FVPL | 3 | 3 | - | - | - | - | 3 |
| Loans and advances to banks | 39,059 | 39,760 | 29,982 | - | 9,778 | - | - |
| Investment securities | 678,599 | 679,035 | - | 16,891 | 112,988 | 405,023 | 144,133 |
| Loans and advances to clients | 1,547,666 | 2,039,287 | 263,234 | 69,124 | 133,086 | 394,174 | 1,179,669 |
| Other financial assets | 512 | 512 | 512 | - | - | - | - |
| | **3,247,400** | **3,740,173** | **1,275,304** | **86,015** | **255,852** | **799,197** | **1,323,805** |
| Deposits from banks | 28,156 | (29.154) | (194) | - | - | - | (28.960) |
| Deposits from clients | 2,983,881 | (2,984,594) | (2,252,116) | (167,338) | (424,623) | (140,517) | - |
| Liabilities under lease agreements | 8,431 | (8.600) | - | - | (2.693) | (4.826) | (1.081) |
| Other long-term borrowed funds | 4,956 | (4.956) | (772) | (6) | (69) | (4.109) | - |
| Other financial liabilities | 2,607 | (2.607) | (2.607) | - | - | - | - |
| | **3,028,031** | **(3,029,911)** | **(2,255,689)** | **(167,344)** | **(427,385)** | **(149,452)** | **(30,041)** |
| Guarantees and letters of credit | 48,758 | (48,758) | (6,568) | (5,701) | (16,131) | (7,796) | (12,562) |
| Unutilized credit commitments: | 117,909 | (117,909) | (7,309) | (12,600) | (84,621) | (6,058) | (7,321) |
| | **3,194,698** | **(3,196,578)** | **(2,269,566)** | **(185,645)** | **(528,137)** | **(163,306)** | **(49,924)** |

### (d) Market risk

Market risk is the risk that a change in market conditions or parameters affecting market conditions such as interest rates, equity prices, or exchange rates for foreign currencies will affect the income or value of financial instruments held by the Bank. The market risk management policy aims to manage and control market risk exposures within the allowable limits, optimizing the risk / return ratio.

**6. Disclosure of the financial risk management policy, continued**

**(d) Market risk (continued)**

***Market risk exposure***

All marketable instruments are subject to market risk as a result of future changes in market conditions. Instruments are measured at fair value and any changes in market conditions directly affect net trading income.

Allianz Bank Bulgaria AD manages its tradable instruments under the changing market conditions. Exposure to market risk is managed in accordance with exposure limits, concentration on instrument types and VaR limits.

The method used to measure and manage market risk is the so-called Value at Risk (VaR). VaR is an indicator of the expected loss from trading portfolio for a certain period of time (holding period) and a certain probability level (confidence level). The VaR model used by the Bank is based on a 99% confidence level and a ten-day holding period. The VaR model is based on historical data from a minimum of 250 day observation period.

Although VaR is an important tool in measuring market risk, the assumptions on which the model is based lead to some constraints:

- The ten-day holding period suggests that it is possible to hedge or release positions in that period. This is considered a real assumption in almost all cases except in situations where there is low market liquidity over a prolonged period of time.
- The 99% confidence level does not account for any losses that may arise beyond that level. Even within the model, there is a 1% probability that losses may exceed VaR.
- VaR is calculated at the end of each day and does not take account of the risks that may arise during the trading day / trading session.
- VaR depends on the position of the Bank and the volatility of market prices. The VaR in unchanged position decreases when the volatility of market prices decreases and vice versa.

***Exposure to market risk - financial assets measured at fair value through profit or loss;***

Financial instruments at fair value through profit or loss as at 31.12.2021 and 31.12.2020 do not include instruments measurable for market risk, reflecting the adopted policy for investing in other classes of financial assets.

***Exposure to market risk - financial assets measured at fair value through other comprehensive income;***

The 1-day VaR of the Monte Carlo simulation at 99% confidence interval as at 31 December 2021 and 2020 and during the reporting period is as follows:

## 6. Disclosure of the financial risk management policy, continued

### (d) Market risk (continued)

***Market risk exposure (continued)***

| **2021** | **As at 31.12** | **Average** | **Maximum** | **Minimum** |
|---|---|---|---|---|
| Currency Risk | 2,836 | 1,847 | 2,868 | 658 |
| Interest Risk | 614 | 366 | 648 | 250 |
| Other price risk | 754 | 125 | 757 | - |
| Correlation | (1.173) | (435) | (1,237) | (194) |
| | **3,031** | **1,903** | **3,036** | **714** |

| **2020** | **As at 31.12** | **Average** | **Maximum** | **Minimum** |
|---|---|---|---|---|
| Currency Risk | 657 | 35 | 663 | - |
| Interest Risk | 273 | 201 | 292 | 140 |
| Other price risk | - | - | - | - |
| Correlation | (216) | (15) | (234) | - |
| | **714** | **221** | **721** | **140** |

The interest rate levels in the current year are gradually decreasing, reaching their minimum values at the end of the reporting period, reflecting declining portfolio duration and low volatility of bond market yields.

The 10-day VaR of the Monte Carlo simulation at 90% confidence interval as at 31 December and during the reporting period is as well follows:

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| As at 31 December | 9,584 | 2,257 |

changes in market interest rates under the hypothesis of parallel shift of interest rate curves.

***Interest risk sensitivity analysis***

For the management of interest rate risk and interest rate changes, observations are made on the sensitivity of the Bank's financial assets and liabilities in applying scenarios to the movement of interest rates.

Sensitivity analysis is based on the scenario of 100 basis points parallel increase of all profitability curves of all currencies simultaneously.

The model for the measuring of market risk is based on the analysis of imbalance (GAP analysis). It is used to measure the Bank's potential loss arising from projected changes in market interest rates under the hypothesis of parallel movement of interest curves.

The model is applied to the banking and trading book at the end of the year.
Bank performs calculations for 6 scenarios, the results of which are shown in the table below, while parallel shock hypotheses are at 200 Bps, for a short-term shock of 250 bps, and a long-term shock of 100 Bps, according to Annex II Interest rate risk in banking book (EBA):

## 6. Disclosure of the financial risk management policy, continued

### (d) Market risk (continued)

***Interest risk sensitivity analysis (continued)***

| **Scenarios 2021** | **Sensitivity to interest of the value of equity (EVE)** | | **Net interest income** |
|---|---|---|---|
| | % | BGN thousand | BGN thousand |
| parallel upward shock; | -12.87% | (29,591) | (13,103) |
| parallel downward shock; | 12.87% | 29,591 | 13,103 |
| short-term interest downward and long-term upward (steepener); | -12.84% | (29,059) | |
| short-term interest upward and long-term downward (flattener); | 3.03% | 6,866 | |
| short-term interest upward; and | -2.5% | (5,664) | |
| short-term interest downward | 2.5% | 5,664 | |

| **Scenarios 2020** | **Sensitivity to interest of the value of equity (EVE)** | | **Net interest income** |
|---|---|---|---|
| | % | BGN thousand | BGN thousand |
| parallel upward shock; | -8.40% | (19,012) | (15,914) |
| parallel downward shock; | 8.40% | 19,012 | 15,914 |
| short-term interest downward and long-term upward (steepener); | -7.28% | (16,475) | |
| short-term interest upward and long-term downward (flattener); | 0.98% | 2,216 | |
| short-term interest upward; and | -2.30% | (5,207) | |
| short-term interest downward | 0.92% | 2,083 | |

***Currency Risk***

The Bank is exposed to currency risk in transactions with financial instruments denominated in foreign currency.

As a result of the introduction of a Currency Board in Bulgaria, the Bulgarian lev is fixed to the EUR. As the currency in which the Bank compiles its accounts is the Bulgarian lev, the movements in the exchange rates of the lev against the non-euro area currencies affect the accounts.

Transactions in foreign currencies result in income and expenses from foreign exchange transactions that are reported in the income statement. Such exposures are the Bank's cash assets and liabilities denominated in a currency other than the Bank's presentation currency. These exposures in foreign currency are presented in the table below.

## 6. Disclosure of the financial risk management policy, continued

### (d) Market risk (continued)

***Currency Risk (continued)***

*In BGN thousand*
**31 DECEMBER 2021**

| | BGN | EUR | USD | Other currencies | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 418,514 | 340,481 | 161,890 | 15,666 | 936,551 |
| Financial assets measured at FVPL | 3 | - | - | - | 3 |
| Loans and advances to banks | - | 9,753 | - | - | 9,753 |
| Financial assets measured at FVOCI | 157,496 | 175,558 | 40,589 | - | 373,643 |
| Financial assets measured at AC | 360,586 | 272,827 | - | - | 633,413 |
| Loans and advances to clients | 1,170,556 | 438,995 | 12,592 | 737 | 1,622,880 |
| **Total assets** | **2,107,155** | **1,237,614** | **215,071** | **16,403** | **3,576,243** |
| **Liabilities** | | | | | |
| Deposits from banks | 224 | 24,490 | - | - | 24,714 |
| Deposits from other clients | 2,119,488 | 957,808 | 213,159 | 16,212 | 3,306,667 |
| Other borrowed funds | - | 2,304 | - | - | 2,304 |
| Liabilities under lease agreements | 15,065 | - | - | - | 15,065 |
| **Total liabilities** | **2,134,777** | **984,602** | **213,159** | **16,212** | **3,348,750** |
| **Net currency position** | **(27,622)** | **253,012** | **1,912** | **191** | **227,493** |

**6. Disclosure of the financial risk management policy, continued**

**(d) Market risk (continued)**

***Currency Risk (continued)***

*In BGN thousand*
**31 DECEMBER 2020**

| | **BGN** | **EUR** | **USD** | **Other currencies** | **Total** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 694,540 | 93,439 | 176,547 | 17,035 | 981,561 |
| Financial assets measured at FVPL | 3 | - | - | - | 3 |
| Loans and advances to banks | - | 39,059 | - | - | 39,059 |
| Financial assets measured at FVOCI | 17,979 | 176,663 | 15,414 | - | 210,056 |
| Financial assets measured at AC | 111,152 | 357,391 | - | - | 468,543 |
| Loans and advances to clients | 947,816 | 593,379 | 6,471 | - | 1,547,666 |
| **Total assets** | **1,771,490** | **1,259,931** | **198,432** | **17,035** | **3,246,888** |
| **Liabilities** | | | | | |
| Deposits from banks | 169 | 27,962 | 25 | - | 28,156 |
| Deposits from other clients | 1,796,452 | 950,883 | 220,587 | 15,959 | 2,983,881 |
| Other borrowed funds | - | 4,956 | - | - | 4,956 |
| Liabilities under lease agreements | 8,431 | - | - | - | 8,431 |
| **Total liabilities** | **1,805,052** | **983,801** | **220,612** | **15,959** | **3,025,424** |
| **Net currency position** | **(33,562)** | **276,130** | **(22,180)** | **1,076** | **221,464** |

**(e) compliance with capital adequacy requirements**

*Capital base (equity)*

The capital base (equity) includes Tier 1 and Tier 2 capital, in accordance with the applicable regulatory requirements. The Bank has no subscribed Tier 2 capital.

The Bank prepares quarterly supervisory and monthly internal reports in accordance with the requirements of Ordinance No 8 of the Bulgarian National Bank (BNB) of 24 April 2014 on the capital buffers of banks and Commission Implementing Regulation (EU) No 680/2014 /effective until June 2021/ and Commission Implementing Regulation (EU) 2021/451 effective from 28 June 2021 on an individual basis.

## 6. Disclosure of the financial risk management policy, continued

### (e) Compliance with capital adequacy requirements (continued)

*Capital base (equity), (continued)*

The Bank complies with the regulatory capital adequacy requirements and discloses its annual data to the BNB according to Regulation (EU) No 575/2013 (Eighth part) and the Credit Institutions Act (Article 70 (3)).

The approach chosen by the Bank for calculation of the operational risk is the approach of the basic indicator, according to Regulation (EU) No. 575/2013.

The Bank monitors changes in major exposure classes, capital base, and total capital adequacy on a monthly basis, and reports the levels of regulatory and internal capital to the Management and Supervisory Board. According to art. 92 of Regulation 575 of the European parliament and of the Council of Wednesday, June 26, 2013, minimum requirements for the ratios of capital adequacy of Tier 1 capital and of Total capital adequacy are respectively no less than 6% and no less than 8%.

At the end of 2021 Allianz Bank Bulgaria AD has complied with the recommendations of the BNB / decisions of the BNB Governing Council dated 20.12.2019 / and No. 160 dated 24.04.2019 for capital stability - the total capital adequacy should not be less of 14.25%, formed on the basis of:

- Minimum total capital ratio of 8% for risk-weighted assets in accordance with Article 92 (1) of Regulation 575/2013 and additional common equity requirement of 0.25% for risk-weighted assets, or 8.25% total capital requirement under the Supervisory Review and Evaluation Process/ SREP; EBA/GL/2014/13/.
- Systemic risk buffer equal to 3% of the amount of risk-weighted assets
- Safeguard capital buffer, equal to 2.5% of the amount of risk-weighted assets
- Bulgaria at the end of 2021 - 0.5%, according to a BNB decision in connection with COVID-19.

## 7. Use of estimates and assumptions

The presentation of a financial statement in accordance with International Financial Reporting Standards requires management to make the best estimates, accruals and reasonable assumptions that have an effect on the reported amounts of assets and liabilities, income and expense, and the disclosure of contingent liabilities and contingent liabilities at the reporting date. These estimates, accruals and assumptions are based on the information available at the date of the financial statements, so the future factual results could be different from them. Estimates and the underlying assumptions are reviewed on an ongoing basis. Revised accounting estimates are recognized in the period in which the measurement is reviewed and in all future periods.

**Uncertainty in the assumptions and estimates**

The Bank makes assumptions and assessments of uncertain events, including assumptions and assessments of the future. Such accounting assumptions and assessments are reviewed on an ongoing basis and are based on historical experience and other factors such as the expected flow from a future event that can reasonably be assumed under the circumstances but is nevertheless required to constitute a source of suspected uncertainty. The assessment of impairment of the portfolio by credit risk groups and, as a part, the assumptions about the realizable value of collateral - real estate - represents the main source of uncertainty in the valuation. This and other major sources of uncertainty in the estimates that carry a significant risk of a possible material adjustment of the carrying amount of assets and liabilities in subsequent reporting periods are described below and in the following notes.

## 7. Use of estimates and assumptions (continued)

### Uncertainty in the assumptions and estimates, continued

*Measuring expected credit loss (ECL)*

Calculating the expected credit loss of financial assets carried at amortized cost and financial assets carried at fair value through other comprehensive income requires the use of models and significant accounting estimates and assumptions about future economic conditions and changes in the credit quality of assets. client fails to meet its obligations on credit exposures and losses that this would lead to).

The significant accounting estimates and assumptions required by IFRS 9 in calculating the expected credit loss are:

- Determining the criteria for significant increase in credit risk
- Selection of appropriate models for the calculation of ECL
- Selecting appropriate economic variables to produce forward-looking information
- Determining the weight of each scenario for the future development of the selected economic variables

The full description of the estimates and the method of estimating the expected credit loss are described in item 5, (e), (ii).

The specific component of the total provision for impairment for a single counterparty relates to financial assets that are individually assessed for impairment and is based on the management's best estimate of the present value of the cash flows expected to be received. When assessing these cash flows, the management makes judgments about the counterparty's financial position and the net realizable value of the collateral. Each impaired asset is measured individually, the strategy for recovering the impaired asset and the estimated cash flows that are considered recoverable are approved regardless of the credit risk assessment function.

Collectively assessed impairment losses cover losses on loans inherent in loan portfolios and receivables with similar credit risk characteristics when there is objective evidence that they contain impaired loans and receivables but individual impaired assets can not be identified. When assessing the need for portfolio impairment losses, management takes into account factors such as loan quality, portfolio size, concentrations and economic factors. In order to assess the necessary provision for impairment, assumptions are made to determine how inherent losses are based on historical experience and current economic conditions. The accuracy of the provisions depends on the estimates of future cash flows for the impairment losses of a particular counterparty as well as on the assumptions and parameters of the models used to determine the impairment losses on a portfolio basis.

*Determining the fair value of financial instruments*

The determination of the fair value of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques described in accounting policy 5 (e) (vi). For financial instruments that are rarely traded and whose price is not available or observed on the market, fair value is less objective and requires a range of ratings depending on liquidity, concentration, uncertainty of market factors, price assumptions and other risks affecting the specific instrument.

## 7. Use of estimates and assumptions (continued)

**Uncertainty in the assumptions and estimates, continued**

*Evaluation of financial instruments*

The Bank measures fair value using the following hierarchy of methods:

- Level 1: the level 1 incoming data are the quoted (unadjusted) prices of instruments at active markets for identical financial instruments;

- Level 2- the level 2 incoming data are the incoming data for an asset or a liability different from the quoted prices included at level 1 which are directly or indirectly accessible for observation. This category includes instruments, measured using: quoted prices of similar assets or liabilities at active markets; quoted prices of identical or similar assets or liabilities at markets which are not considered active; other valuation techniques where all the significant incoming data are directly or indirectly accessible for observation using market data;

- Level 3: the level 3 incoming data are non-observable incoming data for an asset or a liability. This category includes all the instruments whereupon the valuation technique does not include observable incoming data, and the non-observable incoming data have a significant impact on the instrument valuation. This category includes instruments valuated on the basis of quoted prices of similar instruments where significant non-observable adjustments or assumptions are required to reflect the differences among the instruments.

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices on stock or dealer markets. For all other financial instruments The Bank defines fair values using other valuation techniques.

Other valuation techniques include models based on present value and discounted cash flows compared to similar instruments for which observable market prices, option pricing models and other models exist. Assumptions and incoming data used in assessment techniques include risk-free and reference interest rates, credit spreads and other premiums used in determining discount rates, prices of debt and equity securities, exchange rates and prices of equity indices and expected fluctuations and correlation of prices. The purpose of valuation techniques is to determine fair value, which reflects the price that would be received to sell an asset or to be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

*Financial instruments measured at fair value - hierarchy*

The following table analyzes financial instruments measured at fair value through the fair value hierarchy.

| *In BGN thousand* | **Level 1- Announced Market Prices in Active Markets** | **Level 2 - Evaluation techniques - using market data** | **Level 3 - Evaluation techniques - without market data market data** | **Total** |
|---|---|---|---|---|
| **2021** | | | | |
| Financial assets measured at FVPL | - | 3 | - | 3 |
| Financial assets measured at FVOCI | 369,142 | - | 4,501 | 373,643 |
| **Total:** | **369,142** | **3** | **4,501** | **373,646** |

## 7. Use of estimates and assumptions (continued)

### Uncertainty in the assumptions and estimates, continued

*Financial instruments measured at fair value – hierarchy (continued)*

| *In BGN thousand* | Level 1- Announced Market Prices in Active Markets | Level 2 - Evaluation techniques - using market data | Level 3 - Evaluation techniques - without market data market data | Total |
|---|---|---|---|---|
| **2020** | | | | |
| Financial assets measured at FVPL | - | 3 | - | 3 |
| Financial assets measured at FVOCI | 206,374 | - | 3,682 | 210,056 |
| **Total:** | **206,374** | **3** | **3,682** | **210,059** |

*(i) Reconciliation of Level 3 fair value*

The following table presents a reconciliation of the movement from the opening to the closing balance of the Level 3 fair values

| *In BGN thousand* | Equity and debt securities at FVOCI |
|---|---|
| Balance as at 1 January 2021 | 3,682 |
| **Profit included in other comprehensive income** | |
| Net change in fair value (unrealized) | 819 |
| **Balance as at 31 December 2021** | **4,501** |
| Balance as at 01.01.2020 | 3,185 |
| **Profit included in other comprehensive income** | |
| Net change in fair value (unrealized) | 497 |
| **Balance as at 31.12.2020** | **3,682** |

The table below analyzes the fair values of financial instruments measured at fair value through a fair value hierarchy where the fair value is categorized. In the table is not included information about the fair values of financial assets and liabilities that are not measured at fair value if the carrying value is approximately equal the fair value.

| **31 DECEMBER 2021** *In BGN thousand* | Level 1 | Level 2 | Level 3 | Total fair value | Total carrying amount |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | - | 936,551 | - | 936,551 | 936,551 |
| Loans and advances to banks | - | 9,753 | - | 9,753 | 9,753 |
| Financial assets measured at amortized cost | 633,413 | - | - | 633,413 | 633,413 |
| Loans and advances to clients | - | - | 1,622,880 | 1,622,880 | 1,622,880 |
| **Total assets** | **633,413** | **946,304** | **1,622,880** | **3,202,597** | **3,202,597** |
| **Liabilities** | | | | | |
| Deposits from banks | - | - | 24,714 | 24,714 | 24,714 |
| Deposits from clients | - | - | 3,306,667 | 3,306,667 | 3,306,667 |
| Other borrowed funds | - | - | 2,304 | 2,304 | 2,304 |
| **Total liabilities** | - | - | **3,333,685** | **3,333,685** | **3,333,685** |

## 7. Use of estimates and assumptions (continued)

**Uncertainty in the assumptions and estimates, continued**

*Financial instruments measured at fair value – hierarchy (continued)*

*(i) Reconciliation of Level 3 fair value (continued)*

| **31 DECEMBER 2021**<br>*In BGN thousand* | **Level 1** | **Level 2** | **Level 3** | **Total fair value** | **Total carrying amount** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | - | 936,551 | - | 936,551 | 936,551 |
| Loans and advances to banks | - | 9,753 | - | 9,753 | 9,753 |
| Financial assets measured at amortized cost | 633,413 | - | - | 633,413 | 633,413 |
| Loans and advances to clients | - | - | 1,622,880 | 1,622,880 | 1,622,880 |
| **Total assets** | **633,413** | **946,304** | **1,622,880** | **3,202,597** | **3,202,597** |
| **Liabilities** | | | | | |
| Deposits from banks | - | - | 24,714 | 24,714 | 24,714 |
| Deposits from clients | - | - | 3,306,667 | 3,306,667 | 3,306,667 |
| Other borrowed funds | - | - | 2,304 | 2,304 | 2,304 |
| **Total liabilities** | - | - | **3,333,685** | **3,333,685** | **3,333,685** |

The fair value of cash and cash equivalents, loans and advances to banks, deposits from banks and other borrowed funds is approximately equal to their book value because they are short-term. The fair value of loans granted to customers is based on observable market transactions. In cases where market information is not available, fair value measurement is based on valuation models, such as discounted cash flow techniques, applying interest rates to the reporting date for loans with similar terms and conditions, and accrued impairment. The fair value of customer deposits is calculated using discounted cash flow techniques applying the interest rates currently available in the country for deposits with similar maturities and conditions.

| **31 DECEMBER 2020**<br>*In BGN thousand* | **Level 1** | **Level 2** | **Level 3** | **Total fair value** | **Total carrying amount** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | - | 981,561 | - | 981,561 | 981,561 |
| Loans and advances to banks | - | 39,059 | - | 39,059 | 39,059 |
| Financial assets measured at amortized cost | 468,543 | - | - | 468,543 | 468,543 |
| Loans and advances to clients | - | - | 1,547,666 | 1,547,666 | 1,547,666 |
| **Total assets** | **468,543** | **1,020,620** | **1,547,666** | **3,036,829** | **3,036,829** |
| **Liabilities** | | | | | |
| Deposits from banks | - | - | 28,156 | 28,156 | 28,156 |
| Deposits from clients | - | - | 2,983,881 | 2,983,881 | 2,983,881 |
| Other borrowed funds | - | - | 4,956 | 4,956 | 4,956 |
| **Total liabilities** | - | - | **3,016,993** | **3,016,993** | **3,016,993** |

## 7. Use of estimates and assumptions (continued)

**Uncertainty in the assumptions and estimates, continued**

*Financial instruments measured at fair value – hierarchy (continued)*

The fair value of cash and cash equivalents, loans and advances to banks, deposits from banks and other borrowed funds is approximately equal to their book value because they are short-term.

The fair value of loans granted to customers is based on observable market transactions. In cases where market information is not available, fair value measurement is based on valuation models, such as discounted cash flow techniques, applying interest rates to the reporting date for loans with similar terms and conditions, and accrued impairment.

The fair value of customer deposits is calculated using discounted cash flow techniques applying the interest rates currently available in the country for deposits with similar maturities and conditions.

*Significant accounting estimates and judgments for leases*

Significant accounting estimates and judgments are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Their authenticity is checked regularly.

The Bank makes estimates and judgments for accounting and disclosure purposes in its annual financial statements. Estimates and judgments rarely coincide with actual results. The following are estimates that could lead to a significant adjustment to the carrying amount of assets and liabilities in the next financial year.

*(a) Extension and termination options; significant accounting estimates and judgments in determining the term of the lease*

In determining the term of the lease, management takes into account all the facts and circumstances that create economic preconditions for exercising the option to extend or refuse termination. Extension options (or periods after a termination option) are included in the lease term only if it is sufficiently certain that the lease term will be extended (or that the contract will not be terminated).

The following are the most relevant factors for leases of buildings, vehicles and computer equipment:

- If there are significant fines for exercising the termination option (or for not exercising the extension option), in most cases it is considered that there is sufficient certainty that the Bank will exercise the lease extension option (or will not exercise the termination option).

- If the significant improvements made to the leased property are expected to have a significant residual value, then in most cases it is considered that there is sufficient certainty that the Bank will exercise the lease extension option (or will not exercise the termination option).

- In the absence of the above two conditions, the Bank takes into account other factors, including the historical duration of the leases where the Bank was the lessee, as well as the costs and lost business benefits associated with the replacement of the leased asset. In most cases, the options for extension of leases of offices and vehicles are not included in the lease liabilities because the Bank could replace the assets without requiring significant costs and lost business benefits.

## 7. Use of estimates and assumptions (continued)

**Uncertainty in the assumptions and estimates, continued**

*(a) Extension and termination options; significant accounting estimates and judgments in determining the term of the lease (continued)*

The term of the lease agreement is reviewed if the option to extend is actually exercised or if the Bank has been required to exercise it. The existence of sufficient certainty is reviewed only if a material event or change in the circumstances affecting this assessment occurs that is under the control of the lessee. As at 31 December 2021 and 2020, potential future cash outflows amounting to BGN 89 thousand, respectively and BGN 506 thousand (undiscounted) were not included in the lease liabilities because it was not sufficiently certain that the leases would be extended (or not terminated). During the current reporting period, the financial effect of the revision of the lease agreements period to reflect the exercised termination options is a decrease in recognized lease liabilities and assets with the right of use by BGN 179 thousand (2020: BGN 8,168 thousand)

## 8. Classification of financial assets and liabilities.

*In BGN thousand*

| | Reported at FVPL | Reported at AC | Loans and advances at AC | Reported at FVOCI | Liabilities at amortized cost | Gross carrying amount |
|---|---|---|---|---|---|---|
| **31 DECEMBER 2021** | | | | | | |
| Cash and cash equivalents | - | - | 936,551 | - | - | 936,551 |
| Financial assets reported at fair value through profit and loss. | 3 | - | - | - | - | 3 |
| Loans and advances to banks | - | - | 9,753 | - | - | 9,753 |
| Investment securities | - | 633,413 | - | 373,643 | - | 1,007,056 |
| Loans and advances to clients | - | - | 1,622,880 | - | - | 1,622,880 |
| **Total financial assets** | 3 | **633,413** | **2,569,184** | **373,643** | **-** | **3,576,243** |
| Deposits from banks | - | - | - | - | 24,714 | 24,714 |
| Deposits from clients | - | - | - | - | 3,306,667 | 3,306,667 |
| Other borrowed funds | - | - | - | - | 2,304 | 2,304 |
| **Total financial liabilities** | **-** | **-** | **-** | **-** | **3,333,685** | **3,333,685** |

## 8. Classification of financial assets and liabilities (continued)

*In BGN thousand*

| | Reported at FVPL | Reported at AC | Loans and advances at AC | Reported at FVOCI | Liabilities at amortized cost | Gross carrying amount |
|---|---|---|---|---|---|---|
| **31 DECEMBER 2020** | | | | | | |
| Cash and cash equivalents | - | - | 981,561 | - | - | 981,561 |
| Financial assets reported at fair value through profit and loss. | 3 | - | - | - | - | 3 |
| Loans and advances to banks | - | - | 39,059 | - | - | 39,059 |
| Investment securities | - | 468,543 | - | 210,056 | - | 678,599 |
| Loans and advances to clients | - | - | 1,547,666 | - | - | 1,547,666 |
| **Total financial assets** | 3 | **468,543** | **2,568,286** | **210,056** | **-** | **3,246,888** |
| Deposits from banks | - | - | - | - | 28,156 | 28,156 |
| Deposits from clients | - | - | - | - | 2,983,881 | 2,983,881 |
| Other borrowed funds | - | - | - | - | 4,956 | 4,956 |
| **Total financial liabilities** | **-** | **-** | **-** | **-** | **3,016,993** | **3,016,993** |

## 9. Net interest income

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| **Net interest income** | | |
| | | |
| ***Interest Income*** | | |
| Interest income arising from: | | |
| Loans and advances to banks | 58 | 1,083 |
| Loans and advances to clients | 38,780 | 40,358 |
| factoring transactions | 1,190 | 58 |
| borrowed funds from clients | 5,258 | 3,899 |
| investments | 12,376 | 13,407 |
| | **57,662** | **58,805** |
| | | |
| **Interest expense** | | |
| Interest expense arising from: | | |
| deposits from banks | (667) | (297) |
| deposits of clients and other borrowed funds | (1,207) | (600) |
| lease contract payables | (53) | (42) |
| | **1,927** | **(939)** |
| | | |
| **Net interest income** | **55,735** | **57,866** |

## 10. Net income from fees and commissions

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| ***Fees and commissions income*** | | |
| Fees and commissions income, arising from | | |
| Cash transactions and cash transfers | 13,152 | 11,684 |
| Bank cards | 7,266 | 6,119 |
| Loans | 4,079 | 3,534 |
| Guarantees and letters of credit | 1,087 | 699 |
| Factoring | 800 | - |
| Other | 280 | 189 |
| | **26,664** | **22,225** |
| | | |
| ***Fees and commissions expenses*** | | |
| Expenses for fees and commissions, arising from: | | |
| Servicing of current accounts | (36) | (45) |
| Bank card transactions | (3,227) | (2,696) |
| Transfers, incl. through RINGS | (227) | (193) |
| Other | (6,733) | (5,614) |
| | **(10,223)** | **(8,548)** |
| **Net income from fees and commissions** | **16,441** | **13,677** |

## 11. Net income from trade operations

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Net income from operations arising from: | | |
| Financial assets reported at fair value through profit and loss. | 16 | 7 |
| Financial assets at fair value through other comprehensive income | (1,900) | (2,058) |
| Currency trading | 2,298 | 2,287 |
| **Net income from trade operations** | **414** | **236** |

## 12. Net income from investment operations

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Income from operations arising from: | | |
| Dividends | 173 | 68 |
| **Income from investment operations** | **173** | **68** |

## 13. Administrative and other costs

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Expenses for inventory | (783) | (430) |
| Expenditure on external services, incl. audit | (7,457) | (6,652) |
| Management, marketing and other costs | (3,146) | (2,633) |
| Rental costs | (501) | (124) |
| Depreciation costs (App. 21, 23) | (2,095) | (1,870) |
| Depreciation costs of right-of-use assets(App. 22) | (3,066) | (3,449) |
| Staff expenses | (20,152) | (18,432) |
| Bank restructuring costs | - | (6,167) |
| Expenses for deposit guarantee | (3,548) | (3,694) |
| Other costs | (1,146) | (123) |
| **Total administrative costs** | **(41,894)** | **(43,574)** |

The amounts accrued in 2021 for services provided by registered auditors for statutory independent financial audit are as follows: for PricewaterhouseCoopers Audit OOD - BGN 144 thousand excluding VAT and for HLB Bulgaria OOD - BGN 16 thousand excluding VAT. In 2020 the Bank has not charged amounts for other non-statutory audit services provided by registered auditors or members of the relevant network.

The amounts accrued in 2020 for services provided by registered auditors for statutory independent financial audit are as follows: for PricewaterhouseCoopers Audit OOD - BGN 145 thousand excluding VAT and for HLB Bulgaria OOD - BGN 16 thousand excluding VAT. In 2020 the Bank has not charged amounts for other non-statutory audit services provided by registered auditors or members of the relevant network.

Personnel expenses amount to BGN 18,829 thousand. (2020: BGN 18,432 thousand) and includes salaries, social security contributions and health insurance under local law. At the end of 2021 Allianz Bank Bulgaria AD employs 590 employees on an employment contract (2020: 594 employees).

## 14. Other operating income

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Fees income by Tariff, subject to VAT | 1,832 | 1,626 |
| Other income | 4,981 | 4,596 |
| **Other operating income** | **6,813** | **6,222** |

## 15. Income tax expenses

*(a) Taxes, recognized in profit and loss*

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Current taxes | (1,625) | (951) |
| Deferred taxes | (408) | (8) |
| Total profits tax recognized in profit or loss | **(2,033)** | **(959)** |
| Income tax expense recognized in other comprehensive income | **508** | **(108)** |

| | **2021** | | |
|---|---|---|---|
| | Before tax | Tax (expense) income | Net of taxes |
| Change in reserve of subsequent fair value measurements of financial assets | (5,025) | 502 | (4,523) |
| Subsequent measurement of obligations under a defined benefit plan | (62) | 6 | (56) |
| | **(5,087)** | **508** | **(4,579)** |

| | **2020** | | |
|---|---|---|---|
| | **Before tax** | **Tax (expense) income** | **Net of taxes** |
| Change in reserve of subsequent fair value measurements of financial assets | **1,108** | **(111)** | **997** |
| Subsequent measurement of obligations under a defined benefit plan | **(26)** | **3** | **(23)** |
| | **1,082** | **(108)** | **974** |

*(б) Explanation of effective tax rate*

| | **2021** | **2020** |
|---|---|---|
| Profit before taxation | 19,359 | 9,200 |
| Nominal tax rate | 10% | 10% |
| Expected tax | 1,936 | 920 |
| Taxable permanent differences | 114 | 46 |
| Exempt income from dividends | (17) | (7) |
| | **2,033** | **959** |
| Effective tax rate | 10.50% | 10.42% |

## 16. Cash and cash equivalents

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Cash in hand | 26,615 | 32,433 |
| Balances with the Central Bank | 692,892 | 754,951 |
| Current accounts and deposits with banks with original maturity of up to 3 months | 217,055 | 194,192 |
| Impairment | (11) | (15) |
| **Total cash and cash equivalents** | **936,551** | **981,561** |

Below are presented the funds under credit ratings. The rating agency Standard & Poor's has been used:

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Cash in hand | 26,615 | 32,433 |
| The central bank BBB- | 692,892 | 754,951 |
| **Current accounts and deposits with banks with original maturity of up to 3 months** | **217,055** | **194,192** |
| AA | 82 | 92 |
| AA- | 81,306 | 80,693 |
| A+ | 41,998 | - |
| A | 48,850 | 37,735 |
| A- | - | 38,254 |
| BBB+ | 25,284 | 16,150 |
| BBB | 33 | 25 |
| BBB- | 19,502 | 21,243 |
| **Total** | **936,562** | **981,576** |

Balances with the Central Bank include a current account with the BNB and minimum required reserves. The current account with the BNB is used for payments on the money market and the government securities market (GS) as well as for the purposes of settlement. The minimum required reserves with the BNB are interest-free and regulated on a monthly basis. Daily fluctuations are allowed. The shortage of funds on a monthly basis is sanctioned with penalty interest.

## 17. Financial assets reported at fair value through profit and loss.

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| ***Financial assets measured at FVPL*** | | |
| Equity securities | 2 | 2 |
| Other | 1 | 1 |
| **Total financial assets at FVPL** | **3** | **3** |

## 18. Loans and advances to banks

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Loans and advances to foreign banks | 9,753 | 19,530 |
| Loans and advances to local banks | - | 19,529 |
| **Total loans and advances to banks** | **9,753** | **39,059** |

## 19. Investment securities

### 19.1. Financial assets at fair value through other comprehensive income

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Government securities issued or guaranteed by Bulgaria | 228,795 | 53,778 |
| Government securities issued or guaranteed by Romania | 55,141 | 57,763 |
| Government securities issued or guaranteed by USA | 33,565 | 9,556 |
| Government securities issued or guaranteed by Spain | 31,600 | 31,910 |
| Government securities issued or guaranteed by Croatia | 5,080 | 5,286 |
| Government securities issued or guaranteed by Portugal | - | 4,069 |
| Corporate bonds | 10,852 | 40,335 |
| Equity securities | 8,610 | 7,359 |
| **Total financial assets at FVOCI** | **373,643** | **210,056** |

### 19.2. Financial assets measured at amortized cost

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Government securities issued or guaranteed by Bulgaria | 598,209 | 365,716 |
| Government securities issued or guaranteed by Croatia | 14,265 | 14,648 |
| Government securities issued or guaranteed by Romania | 11,130 | 11,206 |
| Government securities issued or guaranteed by Spain | 9,809 | 9,839 |
| Government securities issued or guaranteed by Macedonia | - | 8,663 |
| Government securities issued or guaranteed by Poland | - | 9,536 |
| Government securities issued or guaranteed by Czech Republic | - | 17,238 |
| Corporate bonds | - | 31,697 |
| **Total financial assets at amortized cost:** | **633,413** | **468,543** |
| **Total investment securities** | **1,007,056** | **678,599** |

## 20. Loans and advances to clients

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Loans and advances to clients at amortized cost | 1,524,740 | 1,310,228 |
| Factoring receivables | 91,427 | 30,567 |
| Claims from a cash pool | 9,405 | 205,473 |
| Finance lease receivables | 94,482 | 83,369 |
| Minus losses from impairment | (97,174) | (81,971) |
| **Total loans and advances to clients** | **1,622,880** | **1,547,666** |

### (a) Credit product analysis

| | **2021** | **2020** |
|---|---|---|
| **Individuals** | | |
| Mortgage loans | 637,985 | 521,739 |
| Consumer loans | 247,077 | 222,944 |
| Credit cards | 8,773 | 11,793 |
| Other loans | 94,935 | 84,271 |
| | **988,770** | **840,747** |
| **Entities** | | |
| Working capital loans | 444,825 | 531,101 |
| Investment loans | 286,051 | 257,445 |
| Credit cards | 408 | 344 |
| | **731,284** | **788,890** |
| **Total loans and advances to clients at amortized cost** | **1,720,054** | **1,629,637** |
| Impairment losses | (97,174) | (81,971) |
| **Total loans and advances to clients, net of impairment** | **1,622,880** | **1,547,666** |

## 20. Loans and advances to clients (continued)

### (a) Credit product analysis (continued)

**31 DECEMBER 2021**
*In BGN thousand*

| **Individuals** | **Phase 1** | **Phase 2** | **Phase 3** | **Total** |
|---|---|---|---|---|
| Other loans | 70,528 | 21,876 | 2,531 | 94,935 |
| Mortgage loans | 577,296 | 29,826 | 30,863 | 637,985 |
| Credit cards | 6,545 | 1,608 | 620 | 8,773 |
| Consumer loans | 217,386 | 15,486 | 14,205 | 247,077 |
| **Total** | **871,755** | **68,796** | **48,219** | **988,770** |
| **Entities** | | | | |
| Investment loans | 272,211 | 12,122 | 1,718 | 286,051 |
| Working capital loans | 417,219 | 20,682 | 6,924 | 444,825 |
| Credit cards | 237 | 38 | 133 | 408 |
| **Total** | **689,667** | **32,842** | **8,775** | **731,284** |
| **Total loans and advances to clients at amortized cost** | **1,561,422** | **101,638** | **56,994** | **1,720,054** |
| Impairment losses | (34,712) | (10,426) | (52,036) | (97,174) |
| **Total loans and advances to clients, net of impairment** | **1,526,710** | **91,212** | **4,958** | **1,622,880** |

**31 DECEMBER 2020**
*In BGN thousand*

| **Individuals** | **Phase 1** | **Phase 2** | **Phase 3** | **Total** |
|---|---|---|---|---|
| Other loans | 60,826 | 20,126 | 3,319 | 84,271 |
| Mortgage loans | 460,215 | 27,921 | 33,603 | 521,739 |
| Credit cards | 9,054 | 1,934 | 805 | 11,793 |
| Consumer loans | 195,718 | 14,997 | 12,229 | 222,944 |
| **Total** | **725,813** | **64,978** | **49,956** | **840,747** |
| **Entities** | | | | |
| | **Phase 1** | **Phase 2** | **Phase 3** | **Total** |
| Investment loans | 242,356 | 12,725 | 2,364 | 257,445 |
| Working capital loans | 514,274 | 7,421 | 9,406 | 531,101 |
| Credit cards | 172 | 34 | 138 | 344 |
| **Total** | **756,802** | **20,180** | **11,908** | **788,890** |
| **Total loans and advances to clients at amortized cost** | **1,482,615** | **85,158** | **61,864** | **1,629,637** |
| Impairment losses | (27,952) | (8,329) | (45,690) | (81,971) |
| **Total loans and advances to clients, net of impairment** | **1,454,663** | **76,829** | **16,174** | **1,547,666** |

**20. Loans and advances to clients (continued)**

**(b) Receivables under a finance lease**

A detailed description of the finance lease receivables is presented in the table below.

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| **Gross investment in finance leases, receivables:** | | |
| Less than one year | 6,243 | 4,538 |
| Between one and five years | 81,835 | 70,340 |
| More than five years | 5,107 | 6,742 |
| | **93,185** | **81,620** |
| Unearned financial income | 1,297 | 1,749 |
| **Net investment in finance lease** | **94,482** | **83,369** |
| Minus losses from impairment | (4,595) | (4,709) |
| | **89,887** | **78,660** |
| **Net investment in finance leases, receivables:** | | |
| Less than one year | 5,416 | 4,093 |
| Between one and five years | 79,371 | 67,943 |
| More than five years | 5,100 | 6,624 |
| | **89,887** | **78,660** |

**(c) Impairment losses on loans and advances to clients**

**Individual provisions for impairment losses**

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Status as at 1 January | 45,690 | 48,167 |
| Accrued costs of impairment | 19,268 | 15,963 |
| Reintegrated | (12,277) | (11,234) |
| Written off | (645) | (7,206) |
| **Status as at 31 December** | **52,036** | **45,690** |

**Collective provisions for impairment losses**

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Status as at 1 January | 36,281 | 16,359 |
| Accrued costs of impairment | 19,549 | 25,285 |
| Reintegrated | (10,692) | (5,363) |
| Written off | - | - |
| **Status as at 31 December** | **45,138** | **36,281** |
| **Total** | **97,174** | **81,971** |

## 20. Loans and advances to clients (continued)

### (c) Impairment losses on loans and advances to clients (continued)

**Costs of impairment of assets**

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Loans and advances | (15,793) | (24,651) |
| Securities | (168) | 65 |
| Off-balance sheet and credit commitments | (1,138) | (686) |
| Receivables and cash | (1,224) | (23) |
| **Total** | **(18,323)** | **(25,295)** |

**Loans and advances to customers during the year of depreciation before impairment 2021**

| | **Initial Balance 01.01.2021** | **Changes due to migration from Phase 1 to Phase 2** | **Changes due to migration from Phase 1 and Phase 2 to Phase 3** | **Changes due to migration from Phase 2 and Phase 3 to Phase 1** | **Increases due to occurrence and acquisition** | **Changes due to updating the valuation methodolog y** | **Decrease of the correction due to derecognition** | **Changes due to repayments** | **Balance at the end of the period** |
|---|---|---|---|---|---|---|---|---|---|
| **Phase 1** | | | | | | | | | |
| Cash pool and factoring | **236,014** | - | - | - | - | - | - | (138,749) | 97,265 |
| **Loans and advances** | **1,246,601** | **(31,365)** | **(3,563)** | **307** | **553,009** | **-** | **-** | **(300,832)** | **1,464,157** |
| **Retail** | **685,417** | **(15,552)** | **(3,026)** | **-** | **312,550** | **-** | **-** | **(155,325)** | **824,064** |
| other loans | 765 | (42) | - | - | 49 | - | - | (389) | 383 |
| mortgage loans | 460,215 | (8,595) | (1,377) | - | 203,822 | - | - | (76,769) | 577,296 |
| Credit cards | 9,054 | (219) | (35) | - | 2,615 | - | - | (4,870) | 6,545 |
| consumer loans | 195,718 | (5,353) | (1,565) | - | 95,693 | - | - | (67,107) | 217,386 |
| Finance lease | 19,665 | (1,343) | (49) | - | 10,371 | - | - | (6,190) | 22,454 |

**20. Loans and advances to clients (continued)**

**(c) Impairment losses on loans and advances to clients (continued)**

**Loans and advances to customers during the year of depreciation before impairment (continued)**

| | Initial Balance 01.01.2021 | Changes due to migration from Phase 1 to Phase 2 | Changes due to migration from Phase 1 and Phase 2 to Phase 3 | Changes due to migration from Phase 2 and Phase 3 to Phase 1 | Increases due to occurrence and acquisition | Changes due to updating the valuation methodolo gy | Decrease of the correction due to derecognition | Changes due to repayments | Balance at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Phase 1 Corporate** | **561,184** | **(15,813)** | **(537)** | **307** | **240,459** | **-** | **-** | **(145,507)** | **640,093** |
| Finance lease | 242,356 | (7,841) | (139) | - | 26,711 | - | - | (213,395) | 47,692 |
| investment loans | 172 | (1,866) | - | - | 90,501 | - | - | 183,404) | 272,211 |
| Credit cards | 278,260 | (2) | - | - | 187 | - | - | (278,208) | 237 |
| Working capital loans | 40,396 | (6,104) | (398) | 307 | 123,060 | - | - | 162,692 | 319,953 |
| **Phase 2** | | | | | | | | | |
| Cash pool and factoring | **-** | **-** | **-** | **-** | **3,567** | **-** | **-** | **-** | **3,567** |
| **Loans and advances** | **85,158** | **31,365** | **(4,360)** | **847** | **18,525** | **-** | **-** | **(33,464)** | **98,071** |
| **Retail** | **49,098** | **15,552** | **(3,612)** | **200** | **4,763** | **-** | **-** | **(14,235)** | **51,766** |
| other loans | 87 | 42 | - | - | - | - | - | (86) | 43 |
| mortgage loans | 27,921 | 8,595 | (1,406) | 181 | 1,148 | - | - | (6,613) | 29,826 |
| Credit cards | 1,934 | 219 | (77) | 19 | 453 | - | - | (940) | 1,608 |
| consumer loans | 14,997 | 5,353 | 2,036) | - | 1,793 | - | - | (4,621) | 15,486 |
| Finance lease | 4,159 | 1,343 | (93) | - | 1,369 | - | - | (1,975) | 4,803 |

**20. Loans and advances to clients (continued)**

**(c) Impairment losses on loans and advances to clients (continued)**

**Loans and advances to customers during the year of depreciation before impairment (continued)**

| | Initial Balance 01.01.2021 | Changes due to migration from Phase 1 to Phase 2 | Changes due to migration from Phase 1 and Phase 2 to Phase 3 | Changes due to migration from Phase 2 and Phase 3 to Phase 1 | Increases due to occurrence and acquisition | Changes due to updating the valuation methodolog y | Decrease of the correction due to derecognition | Changes due to repayments | Balance at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Phase 2** | | | | | | | | | |
| **Corporate** | **36,060** | **15,813** | **(748)** | **647** | **13,762** | **-** | **-** | **(19,229)** | **46,305** |
| Finance lease | 15,880 | 7,841 | (562) | 106 | 3,693 | - | - | (9,928) | 17,030 |
| investment loans | 12,725 | 1,866 | (186) | - | 2,138 | - | - | (4,421) | 12,122 |
| Credit cards | 34 | 2 | - | - | 31 | - | - | (29) | 38 |
| Working capital loans | 7,421 | 6,104 | - | 541 | 7,900 | - | - | (4,851) | 17,115 |
| **Phase 3** | | | | | | | | | |
| Cash pool and factoring | **26** | **-** | **-** | **-** | **-** | **-** | **26** | **-** | **-** |
| **Loans and advances** | **61,838** | **-** | **7,923** | **(1,154)** | **5,224** | **-** | **(645)** | **(16,192)** | **56,994** |
| **Retail** | **46,873** | **-** | **6,637** | **(200)** | **3,552** | **-** | **(455)** | **(10,451)** | **45,956** |
| other loans | 49 | - | - | - | - | - | - | (21) | 28 |
| mortgage loans | 33,603 | - | 2,783 | (181) | 1,794 | - | (397) | (6,739) | 30,863 |
| Credit cards | 805 | - | 112 | (19) | 83 | - | (2) | (359) | 620 |
| consumer loans | 12,229 | - | 3,601 | - | 1,631 | - | (56) | (3,200) | 14,205 |
| Finance lease | 187 | - | 141 | - | 44 | | - | (132) | 240 |

**20. Loans and advances to clients (continued)**

**(c) Impairment losses on loans and advances to clients (continued)**

**Loans and advances to customers during the year of depreciation before impairment (continued)**

| | Initial Balance 01.01.2021 | Changes due to migration from Phase 1 to Phase 2 | Changes due to migration from Phase 1 and Phase 2 to Phase 3 | Changes due to migration from Phase 2 and Phase 3 to Phase 1 | Increases due to occurrence and acquisition | Changes due to updating the valuation methodolog y | Decrease of the correction due to derecognition | Changes due to repayments | Balance at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Phase 3** | | | | | | | | | |
| **Corporate** | **14,965** | **-** | **1,286** | **(954)** | **1,672** | **-** | **(190)** | **(5,741)** | **11,038** |
| Finance lease | 3,083 | - | 701 | (106) | 290 | - | - | (1,705) | 2,263 |
| investment loans | 2,364 | - | 186 | - | 412 | - | (24) | (1,220) | 1,718 |
| Credit cards | 138 | - | - | - | 7 | - | - | (12) | 133 |
| Working capital loans | 9,380 | - | 399 | (848) | 963 | - | (166) | (2,804) | 6,924 |
| **Total correction for debt instruments** | **1,629,637** | **-** | **-** | **-** | **580,325** | **-** | **(671)** | **(489,237)** | **1,720,054** |

**20. Loans and advances to clients (continued)**

**(c) Impairment losses on loans and advances to clients (continued)**

**Loans and advances to customers during the year of depreciation before impairment 2020**

| | Initial Balance 01.01.2020 | Changes due to migration from Phase 1 to Phase 2 | Changes due to migration from Phase 1 and Phase 2 to Phase 3 | Changes due to migration from Phase 2 and Phase 3 to Phase 1 | Increases due to occurrence and acquisition | Changes due to updating the valuation methodology | Decrease of the correction due to derecognition | Changes due to repayments | Balance at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Phase 1** | | | | | | | | | |
| Cash pool and factoring | **223,699** | | **(26)** | | **12,341** | | | | **236,014** |
| **Loans and advances** | **1,065,612** | **(31,682)** | **(6,691)** | **67** | **476,599** | **-** | **-** | **(257,304)** | **1,246,601** |
| **Retail** | **600,694** | **(17,836)** | **(4,488)** | **5** | **239,678** | **-** | **-** | **(132,636)** | **685,417** |
| other loans | 1,254 | (77) | (9) | - | 150 | - | - | (553) | 765 |
| mortgage loans | 392,720 | (9,086) | (2,709) | - | 140,761 | - | - | (61,471) | 460,215 |
| Credit cards | 8,060 | (280) | (81) | 5 | 5,276 | - | - | (3,926) | 9,054 |
| consumer loans | 181,734 | (6,467) | (1,671) | - | 83,658 | - | - | (61,536) | 195,718 |
| Finance lease | 16,926 | (1,926) | (18) | - | 9,833 | - | - | (5,150) | 19,665 |

**20. Loans and advances to clients (continued)**

**(c) Impairment losses on loans and advances to clients (continued)**

**Loans and advances to customers during the year of depreciation before impairment 2020 (continued)**

| | Initial Balance 01.01.2020 | Changes due to migration from Phase 1 to Phase 2 | Changes due to migration from Phase 1 and Phase 2 to Phase 3 | Changes due to migration from Phase 2 and Phase 3 to Phase 1 | Increases due to occurrence and acquisition | Changes due to updating the valuation methodology | Decrease of the correction due to derecognition | Changes due to repayments | Balance at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Corporate** | **464,918** | **(13,846)** | **(2,203)** | **62** | **236,921** | **-** | **-** | **(124,668)** | **561,184** |
| Finance lease | 196,287 | (5,436) | - | - | 88,435 | - | - | (36,930) | 242,356 |
| investment loans | 267 | (9) | - | - | 55 | - | - | (141) | 172 |
| Credit cards | 234,794 | (1,998) | (658) | - | 123,795 | - | - | (77,673) | 278,260 |
| Working capital loans | 33,570 | (6,403) | (1,545) | 62 | 24,636 | - | - | (9,924) | 40,396 |
| | | | | | | | | | |
| **Phase 2** | | | | | | | | | |
| **Loans and advances** | **73,524** | **31,682** | **(5,195)** | **(67)** | **12,912** | **-** | **-** | **(27,698)** | **85,158** |
| **Retail** | **42,433** | **17,836** | **(3,800)** | **(5)** | **5,554** | **-** | **-** | **(12,920)** | **49,098** |
| other loans | 77 | 77 | - | - | - | - | - | (67) | 87 |
| mortgage loans | 24,698 | 9,086 | (1,838) | - | 2,080 | - | - | (6,105) | 27,921 |
| Credit cards | 1,988 | 280 | (145) | (5) | 628 | - | - | (812) | 1,934 |
| consumer loans | 12,452 | 6,467 | (1,588) | - | 1,839 | - | - | (4,173) | 14,997 |
| Finance lease | 3,218 | 1,926 | (229) | - | 1,007 | - | - | (1,763) | 4,159 |
| | | | | | | | | | |
| **Phase 2** | | | | | | | | | |
| **Corporate** | **31,091** | **13,846** | **(1,395)** | **(62)** | **7,358** | **-** | **-** | **(14,778)** | **36,060** |
| investment loans | 9,641 | 5,436 | (76) | - | 304 | - | - | (2,580) | 12,725 |
| Credit cards | 30 | 9 | - | - | 10 | - | - | (15) | 34 |
| Working capital loans | 9,907 | 1,998 | (496) | - | 2,232 | - | - | (6,220) | 7,421 |
| Finance lease | 11,513 | 6,403 | (823) | (62) | 4,812 | - | - | (5,963) | 15,880 |

**20. Loans and advances to clients (continued)**

**(c) Impairment losses on loans and advances to clients (continued)**

**Loans and advances to customers during the year of depreciation before impairment 2020 (continued)**

| | Initial Balance 01.01.2020 | Changes due to migration from Phase 1 to Phase 2 | Changes due to migration from Phase 1 and Phase 2 to Phase 3 | Changes due to migration from Phase 2 and Phase 3 to Phase 1 | Increases due to occurrence and acquisition | Changes due to updating the valuation methodology | Decrease of the correction due to derecognition | Changes due to repayments | Balance at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Phase 3** | | | | | | | | | |
| **Cash pool and factoring** | **-** | **-** | **26** | **-** | **-** | **-** | **-** | **-** | **26** |
| **Loans and advances** | **69,200** | **-** | **11,886** | **-** | **5,944** | **-** | **(7,204)** | **(17,988)** | **61,838** |
| **Retail** | **46,804** | **-** | **8,288** | **-** | **2,820** | **-** | **(2,408)** | **(8,631)** | **46,873** |
| other loans | 71 | - | 9 | - | - | - | (7) | (24) | 49 |
| mortgage loans | 36,093 | - | 4,547 | - | 993 | - | (2,198) | (5,832) | 33,603 |
| Credit cards | 624 | - | 226 | - | 271 | - | (16) | (300) | 805 |
| consumer loans | 9,995 | - | 3,259 | - | 1,556 | - | (187) | (2,394) | 12,229 |
| Finance lease | 21 | - | 247 | - | - | - | - | (81) | 187 |

**20. Loans and advances to clients (continued)**

**(c) Impairment losses on loans and advances to clients (continued)**

**Loans and advances to customers during the year of depreciation before impairment 2020 (continued)**

| | Initial Balance 01.01.2020 | Changes due to migration from Phase 1 to Phase 2 | Changes due to migration from Phase 1 and Phase 2 to Phase 3 | Changes due to migration from Phase 2 and Phase 3 to Phase 1 | Increases due to occurrence and acquisition | Changes due to updating the valuation methodology | Decrease of the correction due to derecognition | Changes due to repayments | Balance at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Phase 3** | | | | | | | | | |
| **Corporate** | **22,396** | **-** | **3,598** | **-** | **3,124** | **-** | **(4,796)** | **(9,357)** | **14,965** |
| investment loans | 6,751 | - | 76 | - | 56 | - | (345) | (4,174) | 2,364 |
| Credit cards | 171 | - | - | - | 27 | - | (3) | (57) | 138 |
| Working capital loans | 14,906 | - | 1,154 | - | 2,187 | - | (4,448) | (4,419) | 9,380 |
| Finance lease | 568 | - | 2,368 | - | 854 | - | - | (707) | 3,083 |
| **Total correction for debt instruments** | **1,432,035** | **-** | **-** | **-** | **507,796** | **-** | **(7,204)** | **(302,990)** | **1,629,637** |

## 20. Loans and advances to clients (continued)

### (d) Movement of impairment of loans and advances to customers in 2021

| | Initial Balance 01.01.2021 | Changes due to migration from Phase 1 to Phase 2 | Changes due to migration from Phase 1 and Phase 2 to Phase 3 | Changes due to migration from Phase 2 and Phase 3 to Phase 1 | Increases due to occurrence and acquisition | Changes due to updating the valuation methodology | Decrease of the correction due to derecognition | Changes due to repayments | Balance at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Phase 1** | | | | | | | | | |
| **Cash pool and factoring** | **35** | **-** | **-** | **-** | **65** | **-** | **-** | **-** | **100** |
| **Loans and advances** | **27,917** | **(386)** | **(90)** | **-** | **13,225** | **-** | **-** | **(6,054)** | **34,612** |
| **Retail** | **7,838** | **(232)** | **(76)** | **-** | **3,036** | **-** | **-** | **(1,981)** | **8,585** |
| other loans | 4 | - | - | - | - | - | - | (2) | 2 |
| mortgage loans | 5,122 | (140) | (30) | - | 1,975 | - | - | (1,079) | 5,848 |
| Credit cards | 87 | (5) | (1) | - | 16 | - | - | (60) | 37 |
| consumer loans | 2,550 | (82) | (45) | - | 954 | - | - | (808) | 2,569 |
| Finance lease | 75 | (5) | - | - | 91 | - | - | (32) | 129 |
| **Corporate** | **20,079** | **(154)** | **(14)** | **-** | **10,189** | **-** | **-** | **(4,073)** | **26,027** |
| Finance lease | 342 | (50) | (1) | - | 266 | - | - | (113) | 444 |
| investment loans | 10,700 | (11) | - | - | 3,846 | - | - | (2,037) | 12,498 |
| Credit cards | 3 | - | - | - | 4 | - | - | (3) | 4 |
| Working capital loans | 9,034 | (93) | (13) | - | 6,073 | - | - | (1,920) | 13,081 |

**20. Loans and advances to clients (continued)**

**(d) Movement of impairment of loans and advances to customers in 2021 (continued)**

| Phase 2 | Initial Balance 01.01.2021 | Changes due to migration from Phase 1 to Phase 2 | Changes due to migration from Phase 1 and Phase 2 to Phase 3 | Changes due to migration from Phase 2 and Phase 3 to Phase 1 | Increases due to occurrence and acquisition | Changes due to updating the valuation methodology | Decrease of the correction due to derecognition | Changes due to repayments | Balance at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Cash pool and factoring** | **-** | **-** | **-** | **-** | **4** | **-** | **-** | **-** | **4** |
| **Loans and advances** | **8,329** | **386** | **(685)** | **666** | **5,272** | **-** | **-** | **(3,546)** | **10,422** |
| **Retail** | **5,310** | **232** | **(677)** | **19** | **2,546** | **-** | **-** | **(1,666)** | **5,764** |
| other loans | 75 | - | - | - | - | - | - | (60) | 15 |
| mortgage loans | 3,296 | 140 | (298) | - | 1,727 | - | - | (838) | 4,027 |
| Credit cards | 153 | 5 | (10) | 19 | 22 | - | - | (149) | 40 |
| consumer loans | 1,648 | 82 | (368) | - | 687 | - | - | (515) | 1,534 |
| Finance lease | 138 | 5 | (1) | - | 110 | - | - | (104) | 148 |
| **Corporate** | **3,019** | **154** | **(8)** | **647** | **2,726** | **-** | **-** | **(1,880)** | **4,658** |
| Finance lease | 883 | 50 | (3) | 106 | 928 | - | - | (594) | 1,370 |
| investment loans | 1,325 | 11 | (5) | - | 816 | - | - | (287) | 1,860 |
| Credit cards | 6 | - | - | - | 1 | - | - | (6) | 1 |
| Working capital loans | 805 | 93 | - | 541 | 981 | - | - | (993) | 1,427 |

**20. Loans and advances to clients (continued)**

**(d) Movement of impairment of loans and advances to customers in 2021 (continued)**

| Phase 3 | Initial Balance 01.01.2021 | Changes due to migration from Phase 1 to Phase 2 | Changes due to migration from Phase 1 and Phase 2 to Phase 3 | Changes due to migration from Phase 2 and Phase 3 to Phase 1 | Increases due to occurrence and acquisition | Changes due to updating the valuation methodology | Decrease of the correction due to derecognition | Changes due to repayments | Balance at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Cash pool and factoring** | **26** | **-** | **-** | **-** | **-** | **-** | **-** | **(26)** | **-** |
| **Loans and advances** | **45,664** | **-** | **775** | **(666)** | **18,492** | **-** | **(645)** | **(11,584)** | **52,036** |
| **Retail** | **32,811** | **-** | **753** | **(19)** | **15,567** | **-** | **(455)** | **(7,446)** | **41,211** |
| other loans | 49 | - | - | - | - | - | - | (21) | 28 |
| mortgage loans | 20,071 | - | 328 | - | 10,624 | - | (397) | (4,271) | 26,355 |
| Credit cards | 773 | - | 11 | (19) | 160 | - | (2) | (308) | 615 |
| consumer loans | 11,731 | - | 413 | - | 4,626 | - | (56) | (2,741) | 13,973 |
| Finance lease | 187 | - | 1 | - | 157 | - | - | (105) | 240 |
| **Corporate** | **12,853** | **-** | **22** | **(647)** | **2,925** | **-** | **(190)** | **(4,138)** | **10,825** |
| Finance lease | 3,083 | - | 4 | (106) | 630 | - | - | (1,348) | 2,263 |
| investment loans | 1,582 | - | 5 | - | 908 | - | (24) | (747) | 1,724 |
| Credit cards | 104 | - | - | - | 39 | - | - | (10) | 133 |
| Working capital loans | 8,084 | - | 13 | (541) | 1,348 | - | (166) | (2,033) | 6,705 |
| **Total correction for debt instruments** | **81,971** | **-** | **-** | **-** | **37,058** | **-** | **(645)** | **(21,210)** | **97,174** |

**20. Loans and advances to clients (continued)**

**(d) Movement of impairment of loans and advances to customers in 2020**

| Phase 1 | Initial Balance 01.01.2020 | Changes due to migration from Phase 1 to Phase 2 | Changes due to migration from Phase 1 and Phase 2 to Phase 3 | Changes due to migration from Phase 2 and Phase 3 to Phase 1 | Increases due to occurrence and acquisition | Changes due to updating the valuation methodology | Decrease of the correction due to derecognition | Changes due to repayments | Balance at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Cash pool and factoring** | **45** | **-** | **(26)** | **-** | **-** | **-** | **-** | **16** | **35** |
| **Loans and advances** | **11,697** | **(343)** | **(80)** | **1** | **19,636** | **-** | **-** | **(2,994)** | **27,917** |
| **Retail** | **5,204** | **(204)** | **(65)** | **-** | **4,205** | **-** | **-** | **(1,302)** | **7,838** |
| other loans | 7 | - | - | - | - | - | - | (3) | 4 |
| mortgage loans | 2,643 | (74) | (27) | - | 3,035 | - | - | (455) | 5,122 |
| Credit cards | 71 | (6) | (1) | - | 64 | - | - | (41) | 87 |
| consumer loans | 2,424 | (118) | (37) | - | 1,051 | - | - | (770) | 2,550 |
| Finance lease | 59 | (6) | - | - | 55 | - | - | (33) | 75 |
| **Corporate** | **6,493** | **(139)** | **(15)** | **1** | **15,431** | **-** | **-** | **(1,692)** | **20,079** |
| investment loans | 2,634 | (81) | - | - | 8,581 | - | - | (434) | 10,700 |
| Credit cards | 17 | - | - | - | 2 | - | - | (16) | 3 |
| Working capital loans | 3,686 | (25) | (10) | - | 6,558 | - | - | (1,175) | 9,034 |
| Finance lease | 156 | (33) | (5) | 1 | 290 | - | - | (67) | 342 |

## 20. Loans and advances to clients (continued)

### (d) Movement of impairment of loans and advances to customers in 2020 (continued)

| | Initial Balance 01.01.2020 | Changes due to migration from Phase 1 to Phase 2 | Changes due to migration from Phase 1 and Phase 2 to Phase 3 | Changes due to migration from Phase 2 and Phase 3 to Phase 1 | Increases due to occurrence and acquisition | Changes due to updating the valuation methodology | Decrease of the correction due to derecognition | Changes due to repayments | Balance at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Phase 2** | | | | | | | | | |
| **Cash pool and factoring** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Loans and advances** | **4,617** | **343** | **(458)** | **(1)** | **5,204** | **-** | **-** | **(1,376)** | **8,329** |
| **Retail** | **3,476** | **204** | **(418)** | **-** | **2,937** | **-** | **-** | **(889)** | **5,310** |
| other loans | 1 | - | - | - | 74 | - | - | - | 75 |
| mortgage loans | 2,369 | 74 | (218) | - | 1,553 | - | - | (482) | 3,296 |
| Credit cards | 98 | 6 | (16) | - | 128 | - | - | (63) | 153 |
| consumer loans | 972 | 118 | (182) | - | 1,061 | - | - | (321) | 1,648 |
| Finance lease | 36 | 6 | (2) | - | 121 | - | - | (23) | 138 |
| **Corporate** | **1,141** | **139** | **(40)** | **(1)** | **2,267** | **-** | **-** | **(487)** | **3,019** |
| investment loans | 547 | 81 | (4) | - | 897 | - | - | (196) | 1,325 |
| Credit cards | 4 | - | - | - | 4 | - | - | (2) | 6 |
| Working capital loans | 424 | 25 | (25) | - | 567 | - | - | (186) | 805 |
| Finance lease | 166 | 33 | (11) | (1) | 799 | - | - | (103) | 883 |

**20. Loans and advances to clients (continued)**

**(d) Movement of impairment of loans and advances to customers in 2020 (continued)**

| | Initial Balance 01.01.2020 | Changes due to migration from Phase 1 to Phase 2 | Changes due to migration from Phase 1 and Phase 2 to Phase 3 | Changes due to migration from Phase 2 and Phase 3 to Phase 1 | Increases due to occurrence and acquisition | Changes due to updating the valuation methodology | Decrease of the correction due to derecognition | Changes due to repayments | Balance at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Phase 3** | | | | | | | | | |
| **Cash pool and factoring** | **-** | **-** | **26** | **-** | **-** | **-** | **-** | **-** | **26** |
| **Loans and advances** | **48,167** | **-** | **538** | **-** | **15,382** | **-** | **(7,204)** | **(11,219)** | **45,664** |
| **Retail** | **30,760** | **-** | **483** | **-** | **9,484** | **-** | **(2,408)** | **(5,508)** | **32,811** |
| other loans | 69 | - | - | - | 7 | - | (7) | (20) | 49 |
| mortgage loans | 20,773 | - | 245 | - | 4,535 | - | (2,198) | (3,284) | 20,071 |
| Credit cards | 607 | - | 17 | - | 417 | - | (16) | (252) | 773 |
| consumer loans | 9,290 | - | 219 | - | 4,348 | - | (187) | (1,939) | 11,731 |
| Finance lease | 21 | - | 2 | - | 177 | - | - | (13) | 187 |
| **Corporate** | **17,407** | **-** | **55** | **-** | **5,898** | **-** | **(4,796)** | **(5,711)** | **12,853** |
| investment loans | 3,098 | - | 4 | - | 194 | - | (345) | (1,369) | 1,582 |
| Credit cards | 128 | - | - | - | 27 | - | (3) | (48) | 104 |
| Working capital loans | 13,610 | - | 35 | - | 2,856 | - | (4,448) | (3,969) | 8,084 |
| Finance lease | 571 | - | 16 | - | 2,821 | - | - | (325) | 3,083 |
| **Total correction for debt instruments** | **64,526** | **-** | **-** | **-** | **40,222** | **-** | **(7,204)** | **(15,573)** | **81,971** |

## 21. Property, plant and equipment

| *In BGN thousand* | **Lands and buildings** | **Plant and equipment** | **Fixtures and fittings** | **Transport vehicles** | **Expenses for acquisition of fixed assets** | **Total** |
|---|---|---|---|---|---|---|
| ***Carrying amount*** | | | | | | |
| As at 1 January 2020 | 7,587 | 14,431 | 6,842 | 740 | 328 | 29,928 |
| Received | 476 | 404 | 307 | - | 2,633 | 3,820 |
| Discontinued | (764) | (2,449) | (438) | - | (1,239) | (4,890) |
| | **7,299** | **12,386** | **6,711** | **740** | **1,722** | **28,858** |
| as at 1 January 2021 | 7,299 | 12,386 | 6,711 | 740 | 1,722 | 28,858 |
| Received | 2,068 | 1,733 | 1,193 | - | 5,626 | 10,620 |
| Discontinued | - | (2,036) | (1,570) | (34) | (6,275) | (9,915) |
| **as at 31 December 2021** | **9,367** | **12,083** | **6,334** | **706** | **1,073** | **29,563** |
| ***Depreciation*** | | | | | | |
| As at 1 January 2020 | (3,955) | (12,807) | (6,027) | (740) | - | (23,529) |
| Depreciation costs for the year | (241) | (646) | (164) | - | - | (1,051) |
| Depreciation of out of use | 438 | 2,445 | 426 | - | - | 3,309 |
| **As at 31.12.2020** | **(3,758)** | **(11,008)** | **(5,765)** | **(740)** | **-** | **(21,271)** |
| as at 1 January 2021 | (3,758) | (11,008) | (5,765) | (740) | - | (21,271) |
| Depreciation costs for the year | (299) | (703) | (215) | - | - | (1,217) |
| Depreciation of out of use | - | 2,031 | 1,557 | 34 | - | 3,622 |
| **as at 31 December 2021** | **(4,057)** | **(9,680)** | **(4,423)** | **(706)** | **-** | **(18,866)** |
| ***Carrying amount*** | | | | | | |
| **31 December 2020** | **3,541** | **1,378** | **946** | **-** | **1,722** | **7,587** |
| **31 DECEMBER 2021** | **5,310** | **2,403** | **1,911** | **-** | **1,073** | **10,697** |

Management has reviewed property, plant and equipment and has not identified any indications that the carrying amount of the assets exceeds their recoverable amount. Therefore, as at 31 December 2021 and 31 December 2020, no impairment of property, plant and equipment was recognized.

## 22. Right-of-use assets

Right-of-use assets (by asset class)

| *In BGN thousand* | 31 DECEMBER 2021 | 31 DECEMBER |
|---|---|---|
| Buildings | 14,407 | 8,246 |
| Plant and equipment | 213 | 98 |
| Motor vehicles | 140 | 194 |
| **Towards the end of the reporting period** | **14,760** | **8,538** |

Right-of-use assets (by asset class)

| *In BGN thousand* | Buildings | Motor vehicles | Plant and equipment | Total |
|---|---|---|---|---|
| **Carrying amount** | | | | |
| **As at 1 January 2020** | 10,485 | 443 | 195 | 11,123 |
| Acquired - new leases | 5,643 | - | 79 | 5,722 |
| Terminated leases | (2,149) | (59) | - | (2,208) |
| As at 31.12.2020 | **13,979** | **384** | **274** | **14,637** |
| **Depreciation** | | | | |
| As at 1 January 2020 | (3,041) | (112) | (81) | (3,234) |
| Depreciation for the year | (3,261) | (93) | (95) | (3,449) |
| Depreciation of out of use | 569 | 15 | - | 584 |
| As at 31.12.2020 | (5,733) | (190) | (176) | (6,099) |
| **Net carrying amount as at 1 January 2020** | **7,444** | **331** | **114** | **7,889** |
| **Net carrying amount as at 31 December 2020** | **8,246** | **194** | **98** | **8,538** |

| *In BGN thousand* | Buildings | Motor vehicles | Plant and equipment | Total |
|---|---|---|---|---|
| **Carrying amount** | | | | |
| **as at 1 January 2021** | **13,979** | **384** | **274** | **14,637** |
| Acquired - new leases | 9,235 | 36 | 228 | 9,499 |
| Terminated leases | (1,480) | (13) | (32) | (1,525) |
| as at 31 December 2021 | **21,734** | **407** | **470** | **22,611** |
| **Depreciation** | | | | |
| as at 1 January 2021 | (5,733) | (190) | (176) | (6,099) |
| Depreciation for the year | (2,870) | (87) | (109) | (3,066) |
| Depreciation of out of use | 1,276 | 10 | 28 | 1,314 |
| as at 31 December 2021 | (7,327) | (267) | (257) | (7,851) |
| **Net carrying amount as at 1 January 2021** | **8,246** | **194** | **98** | **8,538** |
| **Net carrying amount as at 31 December 2021** | **14,407** | **140** | **213** | **14,760** |

**22. Right-of-use assets (continued)**

The following amounts are recognized in the comprehensive income statement:

**Depreciation of right-of-use assets (by asset class)**

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Lands and buildings | 2,870 | 3,261 |
| Motor vehicles | 87 | 93 |
| Plant and equipment | 109 | 95 |
| **Total depreciation expenses** | **3,066** | **3,449** |
| Interest expense on lease liabilities (included in financial expenses) | 53 | 42 |
| Cost related to short-term leasing (included in administrative expenses) | 501 | 124 |
| (Profit) / Loss from termination of the lease contract | (5) | (75) |
| **Total expenses associated with lease contracts** | **549** | **91** |

The following amounts are recognized in the cash flow statement:

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Cash outflow from lease contracts - financing activity | | |
| Principal | 2,712 | 3,493 |
| Interest | 53 | 42 |
| | **2,765** | **3,535** |
| Cash outflow from lease contracts - operating activity | 504 | 133 |
| **Total cash outflow** | **3,269** | **3,668** |

**23. Intangible assets**

| *In BGN thousand* | **Intangible assets** | **Expenditure on acquisition of intangible assets** | **Total** |
|---|---|---|---|
| *Carrying amount* | | | |
| **As at 1 January 2020** | **17,963** | **1,526** | **19,489** |
| Received | 1,329 | 2,470 | 3,799 |
| Discontinued | (1,649) | (1,289) | (2,938) |
| Impairment | (344) | - | (344) |
| **As at 31.12.2020** | **17,299** | **2,707** | **20,006** |
| **as at 1 January 2021** | **17,299** | **2,707** | **20,006** |
| Received | 2,915 | 1,840 | 4,755 |
| Discontinued | (5,145) | (1,662) | (6,807) |
| **as at 31 December 2021** | **15,069** | **2,885** | **17,954** |
| *Depreciation* | | | |
| **As at 1 January 2020** | **(12,848)** | **-** | **(12,848)** |
| Depreciation costs for the year | (819) | - | (819) |
| Depreciation of scrap during the year | 1,291 | - | 1,291 |
| **As at 31.12.2020** | **(12,376)** | **-** | **(12,376)** |

**23. Intangible assets (continued)**

## 23. Intangible assets (continued)

*In BGN thousand*

| | Intangible assets | Expenses on acquisition of intangible assets | Total |
|---|---|---|---|
| **as at 1 January 2021** | **(12,376)** | **-** | **(12,376)** |
| Depreciation costs for the year | (878) | - | (878) |
| Depreciation of scrap during the year | 4,865 | - | 4,865 |
| **as at 31 December 2021** | **(8,389)** | **-** | **(8,389)** |
| *Carrying amount* | | | |
| **31 DECEMBER 2020** | **4,923** | **2,707** | **7,630** |
| **31 DECEMBER 2021** | **6,680** | **2,885** | **9,565** |

In 2020, the impairment of intangible assets is due to the change of reporting applications and software.

## 24. Other financial assets

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Transfers for execution | 1,458 | 512 |
| **Total other financial assets** | **1,458** | **512** |

## 25. Other assets

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Deferred expenses | 6,189 | 4,646 |
| Receivables for fees and deductions | 1,584 | 1,139 |
| Materials in stock | 502 | 715 |
| Other assets | 394 | 1,696 |
| **Total other assets** | **8,669** | **8,196** |

## 26. Deposits from clients

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| *Individuals* | | |
| Current accounts | 1,174,193 | 916,126 |
| Deposits | 618,441 | 699,196 |
| **Total** | **1,792,634** | **1,615,322** |
| *Private enterprises* | | |
| Current accounts | 1,380,416 | 1,184,980 |
| Deposits | 110,289 | 158,715 |
| **Total** | **1,490,705** | **1,343,695** |
| *State-owned enterprises* | | |
| Current accounts | 23,135 | 24,656 |
| Deposits | 208 | 208 |
| **Total** | **23,343** | **24,864** |
| **Total client deposits** | **3,306,682** | **2,983,881** |

## 27. Other borrowed funds

| *In BGN thousand* | 2021 | 2020 |
|---|---|---|
| Payable to the European Investment Fund under the JEREMIE Initiative | 2,304 | 4,956 |
| Payable to the European Investment Bank on a credit line received | 24,465 | 27,940 |
| Received from credit institutions; | 234 | 216 |
| **Total other borrowed funds** | **27,003** | **33,112** |

As at 31 December 2021, the borrowed funds payable to banks on received credit lines included funds for lending to small and medium-sized enterprises received by the European Investment Bank at the amount of BGN 24,448 thousand (2020 - BGN 27,940 thousand).

The Bank has concluded a contract with the European Investment Fund (JEREMIE), which is part of the Operational Program "Development of the Competitiveness of the Bulgarian Economy 2007-2013", providing a resource for the support of small and medium-sized enterprises, with the provided resources amounting to BGN 2,304 thousand. (2020 - BGN 4.956 thousand)

## 28. Liabilities under lease agreements

| *In BGN thousand* | 31 DECEMBER 2021 | 31 DECEMBER 2020 |
|---|---|---|
| Short-term lease liabilities | 2,251 | 2,651 |
| Long -term leasing liabilities | 12,814 | 5,780 |
| **Total lease liabilities** | **15,065** | **8,431** |

| | | **31 DECEMBER 2021** |
|---|---|---|
| *In BGN thousand* | **Minimal lease payments** | **Present value of lease payments** |
| Up to 1 year | 2,311 | 2,269 |
| Between 1 and 5 years | 9,046 | 8,957 |
| More than 5 | 3,961 | 4,083 |
| **Total minimum lease payments** | **15,318** | **15,309** |
| Reduced by amounts representing financial expenses | (253) | (244) |
| **Present value of the minimum lease payments** | **15,065** | **15,065** |

| | | **31 DECEMBER 2020** |
|---|---|---|
| *In BGN thousand* | **Minimal lease payments** | **Present value of lease payments** |
| Up to 1 year | 2,693 | 2,651 |
| Between 1 and 5 years | 4,826 | 4,712 |
| More than 5 | 1,081 | 1,068 |
| **Total minimum lease payments** | **8,600** | **8,431** |
| Reduced by amounts representing financial expenses | (169) | |
| **Present value of the minimum lease payments** | **8,431** | |

## 28. Liabilities under lease agreements (continued)

The tables below presents the movement of lease liabilities for the specific period:

| *(In BGN thousand)* | **Lease liabilities** |
|---|---|
| **Balance sheet as at 01 January 2021** | **(8,431)** |
| Lease principal payments | 2,712 |
| Accrued and paid interest associated with leases | (53) |
| **Total cash outflows from lease contracts** | **2,659** |
| New leases | (9,499) |
| Terminated leases | 206 |
| **Balance sheet as at 31 December 2021** | **(15,065)** |

| *(In BGN thousand)* | **Lease liabilities** |
|---|---|
| **Balance sheet as at 1 January 2020** | **(7,876)** |
| Lease principal payments | 3,493 |
| Accrued and paid interest associated with leases | 42 |
| **Total cash outflows from lease contracts** | **3,535** |
| New leases | (5,825) |
| Terminated leases | 1,735 |
| **Balance sheet as at 31 December 2020** | **(8,431)** |

## 29. Deferred taxes

Deferred income taxes are calculated on all temporary differences using the balance sheet liability method by applying a 2021 tax rate of 10% (2020: 10%).

The deferred income tax expense is attributable to the following balance sheet items:

| *In BGN thousand* | **Assets** | | **Liabilities** | | **Net (assets)/ liabilities** | |
|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Property, plant and equipment | | - | 506 | 454 | 506 | 454 |
| Other liabilities | (552) | (309) | - | - | (552) | (309) |
| **Net tax (assets)/ liabilities** | **(552)** | **(309)** | **506** | **454** | **(46)** | **145** |

The movement of temporary tax differences during the year arises from:

| *In BGN thousand* | **Balance 2020** | **In profit and loss** | **Balance 2021** |
|---|---|---|---|
| Property, plant and equipment | 454 | 52 | 506 |
| Other liabilities | (309) | (243) | (552) |
| Net deferred tax (assets)/ liabilities | **145** | **(191)** | **(46)** |

| *In BGN thousand* | **Balance 2019** | **In profit and loss** | **Balance 2020** |
|---|---|---|---|
| Property, plant and equipment | 357 | 97 | 454 |
| Other liabilities | (220) | (89) | (309) |
| **Net deferred tax (assets)/ liabilities** | **137** | **8** | **145** |

## 30. Other financial liabilities

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Transfers for execution | 5,924 | 2,607 |
| **Total financial liabilities** | **5,924** | **2,607** |

## 31. Other liabilities

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Payables to personnel | 2,867 | 1,460 |
| Payables under defined benefit plans | 404 | 394 |
| Tax and social security obligations | 584 | 405 |
| Payables to suppliers | 114 | 1,112 |
| Other liabilities | 2,713 | 1,431 |
| **Total other liabilities** | **6,682** | **4,802** |

## 32. Payables under defined benefit pension plans

The Bank has the obligation to pay to those of its resigning employees who retire in compliance with the requirements of Article 222, § 3 of the Labor Code (LC) in Bulgaria. By virtue of these provisions of the LC, upon termination of the labor contracts with employees who have acquired the right to retire, their employer pays a compensation at the amount of two gross salaries. Provided the employee has completed 10 and more years of service at retirement, the compensation is at the amount of 6 gross salaries.

The approximate amount of payables for defined benefit plans at retirement as of every accounting period and the expenses recognized in profit and losses are based on actuarial reports (the information about the parameters and assumptions used is disclosed below).
The defined benefit plan (liability for retirement income) is unfunded.

***Movements in the present value of payments under defined benefit plans***

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| **The present value of payables at 1 January** | **394** | **400** |
| Expenses for hired services | 41 | 45 |
| Interest expense | 1 | 1 |
| Amounts paid during the period | (94) | (78) |
| Actuarial (gains) / losses from changes in demographic and financial assumptions | 62 | 26 |
| **The present value of the payable at 31 December** | **404** | **394** |

***Actuarial assumptions***

The main actuarial assumptions at the reporting date (presented as averages) are presented as follows:

| | **2021** | **2020** |
|---|---|---|
| Discount percentage at 31 December | 0.16646% | 0.26373% |
| Gross wage growth | 3.00% | 3.00% |

## 33. Capital and reserves

### (a) Fixed capital

As at 31 December 2021, Allianz Bank Bulgaria's registered capital amounted to BGN 69,000 thousand. (2020 - BGN 69,000 thousand), which includes registered capital amounting to BGN 69,000 thousand. The registered capital of the Bank is fully paid and consists of 69,000,000 registered shares with voting rights, each with a nominal value of 1 BGN.

The share capital structure as at 31 December 2021 and 31 December 2020 was as follows:

| **Shareholders** | **2021** *% holding:* | **2020** *% holding:* |
|---|---|---|
| Allianz Bulgaria Holding | 99.891 | 99.891 |
| Other | 0.109 | 0.109 |
| | 100.000 | 100.000 |

The ultimate beneficial owner is Allianz SE.

### (b) Retained earnings

As at 31 December 2021, the balance of retained earnings amounted to BGN 174,622 thousand. (2020: BGN 156,301 thousand) and includes profit from previous period amounting to BGN 157,296 thousand. (2020: BGN 148,086 thousand), profit for the year BGN 17,326 thousand. (2020: BGN 8,241 thousand) and loss from defined benefit plans amounting to BGN 62 thousand. (2020: BGN 26 thousand)

### (c) Statutory reserves

Legal reserves are created in accordance with local law requirements. Under the Commerce Act, the Bank should set aside from its profit statutory reserves until it reaches 10% of its capital. At 31 December 2021 the statutory reserves amount to BGN 9,850 thousand. (2020 - BGN 9,850 thousand)

### (d) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of financial assets at fair value through other comprehensive income until the investments are derecognized or impaired. At 31 December 2021 the fair value reserves amount to BGN 4,025 thousand. (2020: BGN 9,599 thousand)

### (e) Capital base

The Bank applies a standardized approach with regard to credit and market risk, and a basic indicator approach for operating risk. The Bank monitors changes in major exposure classes, capital base, and total capital adequacy on a monthly basis, and reports the levels of regulatory and internal capital to the Management and Supervisory Board. The Bank prepares quarterly reports, which it submits to the BNB in compliance with the terms specified in EU Regulation 2021/451 of 28 June 2021. According to art. 92 of Regulation 575 of the European parliament and of the Council of Wednesday, June 26, 2013, minimum requirements for the ratios of capital adequacy of Tier 1 capital and of Total capital adequacy are respectively no less than 6% and no less than 8%. At the end of 2021 Allianz Bank Bulgaria AD has complied with the recommendations of the BNB / decisions of the BNB Governing Council dated 20.12.2019 / and No. 160 dated 24.04.2019 for capital stability - the total capital adequacy should not be less of 14.25%, formed on the basis of:

## 33. Capital and reserves (continued)

### (e) Capital base (continued)

- Minimum total capital ratio of 8% for risk-weighted assets in accordance with Article 92 (1) of Regulation 575/2013 and additional common equity requirement of 0.25% for risk-weighted assets, or 8.25% total capital requirement under the Supervisory Review and Evaluation Process/ SREP; EBA/GL/2014/13/.
- Systemic risk buffer equal to 3% of the amount of risk-weighted assets of the bank.
- Safeguard capital buffer, equal to 2.5% of the amount of risk-weighted assets of the bank.
- Bulgaria at the end of 202 - 0.5%, according to a BNB decision in connection with COVID-19.

The capital adequacy ratio is 17.91% / at a minimum recommended by the BNB of 14.25%./ and Tier 1 capital adequacy ratio of 17.91%. As at 31.12.2021, the Bank does not recognize Tier 2 capital in in its capital base.

| *In BGN thousand* | **Equity/ Capital base 2021** | **Equity/ Capital base 2020** |
|---|---|---|
| Registered and paid-in capital | 69,000 | 69,000 |
| Retained earnings from past year | 157,296 | 148,060 |
| Other reserves | 9,850 | 9,850 |
| Total other comprehensive income | 4,025 | 9,411 |
| **Total capital and reserves** | **240,171** | **236,321** |
| **Reductions** | | |
| Intangible assets | (6,680) | (4,923) |
| Other Transitional Adjustments | (3,652) | (4,915) |
| Total capital reductions * | (10,332) | (9,838) |
| Tier 1 capital | 229,839 | 226,483 |
| Tier 2 capital | - | - |
| **Total equity/ Capital base** | **229,839** | **226,483** |

*the capital reductions ate based on corrections for specific credit risk in the regulatory capital (Regulations 183/2014 and 241/2014), and the prudential assessment of assets and liabilities assessed at fair value introduced at the end of 2018 (Regulation 680/2014 of the EU, via Delegated regulation of the EU 2016/101).

The capital base of the Bank does not include the financial result as of the end of 2021.

### (f) Capital requirements and ratios

As of 31 December 2021, the Bank meets the supervisory requirements as follows:

## 33. Capital and reserves (continued)

### (f) Capital requirements and ratios (continued)

| *In BGN thousand* | **Capital requirements and ratios** |
|---|---|
| **Risk exposures for credit risk, counterparty credit risk, risk of dispersion, and free supplies in BGN thousand** | |
| Central governments and central banks | - |
| Regional governments or local authorities | 1,144 |
| Institutions | 50,794 |
| Companies | 430,687 |
| Retail exposures | 362,885 |
| Exposures secured by real estate | 215,402 |
| Non-performing exposures | 5,433 |
| Capital Exposures | 8,610 |
| Other positions | 39,914 |
| Multilateral development banks | 4,997 |
| **Total risk exposures for credit risk, counterparty credit risk, risk of dispersion, and free supplies in BGN thousand** | **1,119,866** |
| **Risk exposures for position, currency, and commodity risk** | **-** |
| **Risk exposures for operating risk** | **163,813** |
| **Total risk exposures in BGN thousand** | **1,283,679** |
| Total Capital adequacy ratio (%) | 17.90% |
| Tier 1 capital adequacy ratio (%) | 17.90% |
| Surplus (+) /deficit (-) of regulatory capital before buffers | 127,145 |
| Safeguard capital buffer / 2.5% of total risk assets / | 32,092 |
| Systemic risk buffer (3% of total risk assets) | 38,510 |
| Institution-specific countercyclical capital buffer | 6,290 |
| Capital requirements in relation to second pillar adjustments | 3,209 |
| **Available capital after deducting buffers** | **47,044** |

The described indicators demonstrate the Bank's main aim – maintaining optimum capital adequacy, i.e., optimum capital adequacy of bank risks to achieve its strategic aims, while complying with individual bank regulations.

## 34. Off-balance sheet commitments

### Bank guarantees and letters of credit

The Bank provides bank guarantees and letters of credit in order to guarantee the execution of commitments of its clients to third parties. These agreements have fixed limits and usually have a validity period of up to two years.

Amounts under agreements to issue guarantees and letters of credit are shown in the table below according to the relevant category. It is considered that the values reflected in the commitment table are fully translated. Amounts reflected in the table as guarantees and letters of credit represent the maximum amount of accounting loss that will be reflected in the statement of financial position in the event that counterparties fail to meet their obligations.

## 34. Off-balance sheet commitments (continued)

**Bank guarantees and letters of credit (continued)**

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Unutilized credit commitments: | 184,882 | 120,076 |
| Letters of credit | 9,512 | 2,374 |
| Guarantees | 44,237 | 47,098 |
| Impairment | (4,019) | (2,881) |
| **Total off-balance sheet commitments** | **234,612** | **166,667** |

These commitments and contingent liabilities are reported only off-balance-sheet, with only engagement fees and expected credit loss being recognized in the statement of financial position until the engagement expires or is executed. Many of the contingent liabilities are expected to close without incurring partial or full payments. Therefore, the amounts do not represent future cash flows.

## 35. Assets provided as collateral

As at 31 December 2021, the Bank has pledged government securities with a nominal value of BGN 41,244 thousand. (2020: BGN 33,154 thousand) and market value BGN 39,655 thousand. (2020: BGN 34,900 thousand) as collateral for attracted funds from the State Budget, Government Securities with a nominal value of BGN 48,142 thousand. (2020: BGN 44,947 thousand) and market value BGN 44,835 thousand. (2020: BGN 49,721 thousand) as collateral for loans from the European Investment Bank under a program for targeted refinancing of commercial banks and a program for providing a targeted credit line for financing of agricultural producers.

## 36. Trust asset management

The Bank offers asset management trust services to Allianz Bulgaria Holding Group companies by holding and managing government securities on behalf of the Bank. For these services, the Bank recognizes income from fees. The trust assets are not assets of the Bank and are not reflected in the Bank's statement of financial position. The Bank is not exposed to credit risk related to the management of these assets because it does not guarantee them.

Fees and commissions from trust management of Allianz Bulgaria Securities are BGN 264 thousand for 2021 (2020: BGN 281 thousand)

## 37. Deals with related parties

### (a) Parent and ultimate controlling entity

*Identification of related parties*

The Bank deems that it is a related party in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" (IAS 24) with:

- The parent company, Allianz Bulgaria Holding AD, from which 66.16% are controlled by Allianz SE (ultimate controlling party) and group companies of Allianz CE;

**An investor with significant influence, holding directly or indirectly (with/or immediate family) 33.84% of the capital of Allianz Bulgaria Holding**

- AD, companies and non-profit entities under its direct or indirect control.
- Key management personnel and companies and legal persons under their direct and indirect control.

## 37. Deals with related persons (continued)

### (a) Parent and ultimate controlling entity (continued)

The table below shows the remuneration of key management personnel:

*Remuneration of key management personnel*

| *In BGN thousand* | **2021** | **2020** |
|---|---|---|
| Short-term earnings | 1,194 | 1,007 |
| **Total** | **1,194** | **1,007** |

The related party transactions are described below.

***Banking service***

The Bank opens and keeps current accounts of related parties, accepts deposits from them, accrues interest charges, grants them loans from which it receives interest income. The Bank also receives income from fees and commissions from bank services provided to related parties.

***Leases***

The Bank acquires a financial lease from a related party. The value of the acquired lease receivables during the period amounted to BGN 45,814 thousand. (2020: BGN 44,706 thousand) The Bank provides credit risk management services to the related party and the risk to the lessee of the related party.

***Other financial services***

The Bank receives income from fees and commissions from the sale of insurance and retirement benefits at the expense of related parties, which presents in the financial statements other operating income.

Other related party transactions include income and expense from / rents from leased or leased premises in own buildings, staff training costs, and insurance costs related to the Bank's operations.

### (b) Transactions and balances

| **Related parties** | **Reason for relationship** | **Type of transaction** | **Value of transactions for the year ended** | | **Final balances as at 31 December** | |
|---|---|---|---|---|---|---|
| *In BGN thousand* | | | **2021** | **2020г.** | **2021** | **2020** |
| Allianz Bulgaria Holding AD | Controls directly or indirectly the Bank's activities | Current accounts | - | - | 3,459 | 2,192 |
| | | Deposits | - | - | 9,002 | 9,001 |
| | | Interest payable on deposits | (11) | 1 | | - |
| | | Interest expense | (29) | (18) | | - |
| | | Fees and commissions income | 5 | 2 | | - |

**37. Deals with related persons (continued)**

**(b) Transactions and balances (continued)**

| **Related parties** | **Reason for relationship** | **Type of transaction** | **Value of transactions for the year ended** | | **Final balances as at 31 December** | |
|---|---|---|---|---|---|---|
| *In BGN thousand* | | | **2021** | **2020г.** | **2021** | **2020** |
| IC Allianz Bulgaria AD | Company under common control | Current accounts | - | - | 20,496 | 28,745 |
| | | Deposits | - | - | 15 | - |
| | | Interest expense | (207) | (258) | - | - |
| | | Fees and commissions income | 312 | 289 | - | - |
| | | Insurance expenses | 1,030 | 827 | - | - |
| | | Rental costs | 285 | 387 | - | - |
| | | Other income | 118 | 238 | - | - |
| | | Other expenses | - | 64 | - | - |
| | | Guarantees | - | - | 1,173 | 1,173 |
| | | Lease liabilities | | | 277 | 493 |
| | | Purchased fixed assets | 370 | 460 | | |
| IC Energy AD | Company under common control | Current accounts | - | - | 13,431 | 7,938 |
| | | Deposits | - | - | 1,210 | 1,210 |
| | | Interest expense | (65) | (41) | - | - |
| | | Fees and commissions income | 32 | 21 | - | - |
| | | Rental costs | 5 | - | - | - |
| | | Guarantees | - | - | 1,173 | 1,173 |
| | | Lease liabilities | | | 5 | 5 |

**37. Deals with related persons (continued)**

**(b) Transactions and balances (continued)**

| **Related parties** | **Reason for relationship** | **Type of transaction** | **Value of transactions for the year ended** | | **Final balances as at 31 December** | |
|---|---|---|---|---|---|---|
| *In BGN thousand* | | | **2021** | **2020г.** | **2021** | **2020** |
| IC Allianz Bulgaria Life JSC | Company under common control | Current accounts | - | - | 15,191 | 8,569 |
| | | Interest expense | (40) | (58) | - | - |
| | | Fees and commissions income | 306 | 295 | - | - |
| | | Other income | 520 | 453 | - | - |
| | | Rental costs | 128 | 194 | - | - |
| | | Insurance expenses | 1,674 | 1,772 | - | - |
| | | Purchased fixed assets | 518 | - | | |
| | | Lease liabilities | | | 225 | 295 |
| PIC Allianz Bulgaria AD | Company under common control | Current accounts | - | - | 4,577 | 9,710 |
| | | Deposits | - | - | 6 | 6 |
| | | Interest expense | (99) | (67) | - | - |
| | | Fees and commissions income | 21 | 19 | - | - |
| | | Other income | 395 | 227 | - | - |
| | | Rental costs | 6 | 11 | - | - |
| | | Guarantees | - | - | 5 | 5 |
| | | Purchased fixed assets | 197 | - | | |
| Allianz Leasing Bulgaria AD | Company under common control | Current accounts | - | - | 2,969 | 16 |
| | | Deposits | - | - | - | - |
| | | Commercial credit | - | - | 21,025 | 21,025 |
| | | Interest Income | 192 | 199 | - | - |
| | | Interest expense | (1) | (2) | - | - |
| | | Fees and commissions income | 12 | 21 | - | - |
| | | Rental costs | 109 | 110 | - | - |
| | | Costs for a transfer of receivables contract | - | 53 | - | - |
| | | Income from a transfer of receivables contract | - | 53 | - | - |
| | | Cession cost | 1,258 | 1,668 | - | - |
| | | Transferred receivables | 45,814 | 44,706 | - | - |
| | | Other income | 2 | 2 | - | - |
| | | Lease liabilities | | | 134 | 188 |

**37. Deals with related persons (continued)**

**(b) Transactions and balances (continued)**

| **Related parties** | **Reason for relationship** | **Type of transaction** | **Value of transactions for the year ended** | | **Final balances as at 31 December** | |
|---|---|---|---|---|---|---|
| *In BGN thousand* | | | **2021** | **2020г.** | **2021** | **2020** |
| Allianz SE | Ultimate Controlling Owner | receivables under cash pool | - | - | 9,405 | 205,473 |
| | | Interest expense | 485 | - | - | - |
| | | Income from interest | - | 509 | - | - |
| | | Marketing expenses | 223 | 180 | - | - |
| | | Expenses for staff management | 137 | 207 | - | - |
| | | IT costs | 73 | 76 | - | - |
| Shareholders and related parties | Companies under the control and joint control of an investor with significant influence and members of his family | Current accounts | - | - | 30,477 | 8,377 |
| | | Deposits | - | - | 1,300 | 18,472 |
| | | Interest payable on deposits | (1) | 1 | - | - |
| | | Interest receivable | - | - | 3 | 12 |
| | | Interest expense | (94) | 2 | - | - |
| | | Income from interest | 93 | 140 | - | - |
| | | Fees and commissions income | 66 | 58 | - | - |
| | | Credits and credit commitments | - | - | 169 | 4,953 |
| | | Impairment losses | - | - | 1 | 27 |
| | | Guarantees | - | - | - | - |
| | | Expenses for staff management | 396 | 37 | - | - |
| | | IT costs | 1,367 | 1,171 | - | - |
| | | Rental costs | 547 | 674 | - | - |

## 37. Deals with related persons (continued)

### (b) Transactions and balances (continued)

As at 31 December 2021, loans and credit commitments had a residual maturity of between 1 year and 5 years. The interest rate varies between 1.80% and 4.50%. Loans and credit commitments are fully secured. Current accounts are not blocked and allow for free payments.

| | **Value of transactions for the year ended 31 December** | | **Final balances as at 31 December** | |
|---|---|---|---|---|
| *In BGN thousand* | **2021** | **2020** | **2021** | **2020** |
| Current accounts | - | - | 1,086 | 1,730 |
| Deposits | - | - | 4 | 2 |
| Interest expense | - | 1 | - | - |
| Income from interest | 15 | 19 | - | - |
| Income from fees and commissions | 2 | 2 | - | - |
| Remuneration | 1,194 | 1,007 | - | - |
| Credits and credit commitments | - | - | 655 | 681 |
| Impairment losses | - | - | 9 | 6 |
| Guarantees under Art. 240, para. 1 of the Commercial Code | - | - | 14 | 14 |

As of 31 December 2021, loans and loan commitments to key management personnel have a residual maturity of less than one year and up to twenty-four years, respectively. The interest rate varies between 2.21% and 3.46%. Loans and credit commitments are fully secured. Deposits and current accounts are not blocked and payments are made freely. Deposits have a residual maturity of up to one year. The interest rate on deposits is 0.06%.

## 38. Commitments under operating leases

The Bank has entered into contracts for the operating lease of buildings, cars and equipment. Contracts are of different duration, depending on the needs of the Bank.

In 2021, the amount of BGN 501 thousand was recognized as an expense in profit and loss in respect of operating leases (2020: BGN 124 thousand)

Irrevocable lease payments for operating lease are due as follows

| In BGN thousand | **2021** | **2020** |
|---|---|---|
| Less than one year | 179 | 171 |
| | **179** | **171** |

Irrevocable lease payments under operating leases are commitments under short-term leases for leases of parking spaces and ATMs, IT equipment and others, which are exceptions within the meaning of IFRS 16 - Leases.

## 39. Capital commitments

The contractual commitments for acquiring property, plant and equipment amounted to BGN 3,026 thousand (2020: BGN 3,168 thousand)

## 40. Events that occurred after the date of preparation of the financial statements

There are no significant events occurring after the date of preparation of the statement of financial position and the activity report that would require additional disclosures or adjustments to the financial statements.

# Independent Auditors' Report

To the Shareholders of Allianz Bank Bulgaria AD

## Report on the audit of the financial statements

### Our opinion

We have audited the financial statements of Allianz Bank Bulgaria AD (the "Bank") which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Allianz Bank Bulgaria AD as at 31 December 2021, and the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Independent Financial Audit Act that are relevant to our audit of the financial statements in Bulgaria. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Independent Financial Audit Act.

## Our audit approach

**Overview**

| | |
|---|---|
| **Materiality** | Overall Bank materiality: BGN 1,290 thousand which represents 5% of the average profit before tax for 2017, 2018, 2019, 2020 and 2021. |
| **Key audit matters** | Estimation uncertainty with respect to the impairment allowance for loans and advances to customers. |

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

**Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| **Overall Bank materiality** | BGN 1,290 thousand |
| **How we determined it** | 5% of the average profit before tax for the years 2017, 2018, 2019, 2020 and 2021. |
| **Rationale for the materiality benchmark applied** | We applied profit before tax as a benchmark because, in our view, it is the benchmark against which the performance of the Bank is commonly measured by the users of the financial statements and it is a generally accepted benchmark. We applied average profit before tax because of its volatility for the past five years. |

### 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.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Estimation uncertainty with respect to the impairment allowance for loans and advances to customers<br><br>Refer to Note 6 (b) “Disclosure of financial risk management policy”, “Credit risk” and Note 20 “Loans and advances to customers”.<br><br>The appropriateness of the impairment allowance for loans and advances to customers requires significant judgement by management. Measuring impairment allowance for loans and advances to customers under IFRS 9 requires an assessment of the 12-month and lifetime expected credit losses and assessment of significant increases in credit risk or whether loans and advances to customers are in default. As at 31 December 2021, the gross loans and advances to customers amounted to BGN 1,720,054 thousand and the related impairment allowance at that date amounted to BGN 97,147 thousand.<br><br>The identification of significant increase in credit risk and default and the measurement of 12-month or life time expected credit loss are part of the Bank’s estimation process and are, amongst others, based on credit risk models, triggers indicating significant increase in credit risk and default, the financial condition of the counterparty, the expected future cash flows or the value of collateral.<br><br>The COVID-19 pandemic increased the uncertainty about the economic outlook and, together with various government measures, including a moratorium on credit payments, has increased the complexity of assessing and monitoring customers' financial condition, which requires an increased level of judgment in calculating impairments of loans and advances.<br><br>The use of different modelling techniques, scenarios and assumptions could lead to different estimates of impairment charges on | Our audit procedures included an assessment of the overall governance of the credit and impairment process of the Bank, including 12-month and lifetime expected loss modelling processes. We have also assessed the appropriateness of the impairment models and internal methodology and their compliance with IFRS 9.<br>We have assessed and tested the design and operating effectiveness of the controls within the lending and provisioning processes. For individually impaired loans, we have performed, for a sample of credit exposures, a detailed review of loans files. We challenged the assumptions related to impairment identification and quantification of expected future cash-flows (recoverable amounts) determined based on either valuation of underlying collateral or other recoveries.<br><br>For the 12-month and lifetime expected credit losses, we challenged the significant increase in credit risk triggers and tested the underlying models, including the Bank’s model approval and validation process.<br><br>Supported by our modeling experts, we have performed an independent recalculation of the expected credit loss for a sample of loans.<br><br>We performed an assessment of the adequacy of the Bank's assumptions and judgements related to the impact of the COVID-19 pandemic, including the moratorium on loan payments, the assessment of expected credit losses and all aspects of the process of their determination.<br><br>We also assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the International Financial Reporting standards as adopted by the European Union. |

loans and advances to customers.

As this position represents a substantial part of Bank’s total assets and given the related estimation uncertainty, we consider this as a key audit matter.

## Information other than the financial statements and auditors’ report thereon

Management is responsible for the other information. The other information comprises Annual Activity Report and the Corporate Governance Statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the financial statements and our auditors’ report thereon.

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

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

**Additional matters to be reported under the Accountancy Act**

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the Annual Activity Report and the Corporate Governance Statement, we have also performed the procedures added to those required under ISAs in accordance with the “Guidelines regarding the new and enhanced auditor reporting and communication by the auditor” of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion on whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and where applicable art. 100(m) paragraph 8 of Public Offering of Securities Act, applicable in Bulgaria.

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

Based on the procedures performed, in our opinion:

a) the information included in the Annual Activity Report for the financial year for which the financial statements are prepared is consistent with those financial statements.
b) the Annual Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
c) the Corporate Governance Statement for the financial year, for which the financial statements are prepared, presents the information required by Chapter Seven of the Accountancy Act and where applicable Art. 100(m), paragraph 8 of the Public Offering of Securities Act.

## 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 IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank/Company reporting process.

## Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

We are jointly and severally responsible for the performance of our audit and for the audit opinion expressed by us in accordance with the requirements of the Independent Financial Audit Act, applicable in Bulgaria. In accepting and performing the engagement for the joint audit, in connection to which we report, we have also been guided by the Guidelines for the implementation of joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants, Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

## Report on other legal and regulatory requirements

**Additional reporting in relation to Ordinance 58/2018 issued by the Financial Supervision Commission ("FSC")**

**Statement in relation to Art. 11 of Ordinance 58/2018 issued by FSC in relation to the requirements for protection of the clients' financial instruments and cash, for product management, and for the providing or receiving of remuneration, commissions and other monitory or non-monetary benefits.**

Based on the audit procedures performed and the understanding of the Bank's activity, in the course and context of our audit of the financial statements as a whole, we identified that the established organization implemented for safeguarding of customers' accounts is in accordance with the requirements of Art. 3-10 of Ordinance 58 of the FSC in relation to the activities of the Bank in its capacity as an investment intermediary.

**Additional reporting on the audit of the financial statements in connection with art. 10 of Regulation (EU) 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) 537/2014, we hereby additionally report the information stated below:

- PricewaterhouseCoopers Audit OOD was appointed as a statutory auditor of the financial statements of the Bank for the year ended 31 December 2021 by the general meeting of shareholders held on 19 July 2021 for a period of one year. PricewaterhouseCoopers Audit OOD was first appointed as auditors of the Bank on 28 September 2018.

- HLB Bulgaria OOD was appointed as a statutory auditor of the financial statements of the Bank for the year ended 31 December 2021 by the general meeting of shareholders held on 19 July 2021 for a period of one year. HLB Bulgaria OOD was first appointed as auditors of the Bank on 28 September 2018.
- The audit of the financial statements of the Bank for the year ended 31 December 2021 represents forth of total uninterrupted statutory audit engagements for that entity carried out by PricewaterhouseCoopers Audit OOD.
- The audit of the financial statements of the Bank for the year ended 31 December 2021 represents forth of total uninterrupted statutory audit engagements for that entity carried out by HLB Bulgaria OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report provided to the Bank's audit committee in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art.64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.
- For the period to which our statutory audit refers, we have not provided services to the Bank, in addition to the audit.

For PricewaterhouseCoopers Audit OOD:

Jock Nunan
Procurist

Anna Boteva
Registered Auditor responsible for the audit
9-11, Maria Luiza blvd.
1000 Sofia, Bulgaria

28 February 2022

For HLB Bulgaria OOD:

Dimitris Papazis
Manager

Stoyan Stoyanov
Registered Auditor responsible for the audit
149-151, Konstantin Velichkov blvd.,
1309 Sofia, Bulgaria

28 February 2022