BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED ANNUAL MANAGEMENT REPORT
INDEPENDENT AUDITORS' REPORT AND
CONSOLIDATED ANNUAL FINANCIAL STATEMENT

31 DECEMBER 2020

Unofficial translation from Bulgarian

ANNUAL CONSOLIDATED REPORT
ON THE ACTIVITIES

FOR 2020

BULGARIAN DEVELOPMENT BANK GROUP

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The shareholding structure at the date of approval of this report: The state through the Minister of Economy – 100%

Supervisory Board (SB)

SB as of 31 December 2020:	SB at the time of approval of the annual consolidated financial statements:
- Stamen Stamenov Yanev – Chairman of the SB - Mitko Emilov Simeonov – Deputy-chairman of the SB; - Velina Ilieva Burska – Member of the SB.	- Valentin Lyubomirov Mihov – Chairman of the SB - Vasil Atanasov Shtonov - Deputy – Chairman of the SB - Stamen Stamenov Yanev – Member of the SB - Mitko Emilov Simeonov – Member of the SB* - Velina Ilieva Burska – Member of the SB*

***** Upcoming registration in the Commercial Register of decision of the sole owner of the capital of BDB under protocol dated 27 May 2021, by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank.

Management Board (MB)

MB as of 31 December 2020:	MB at the time of approval of the annual consolidated financial statements:
- Nikolay Dimitrov Dimitrov – Member of the Management Board and Executive Director - Jivko Ivanov Todorov – Member of the Management Board and Executive Director - Panayot Ivov Filipov - Member of the MB and Executive Director	- Krum Georgiev – Chairman of the Management Board - Vladimir Rashkov Gueorguiev – Member of the Management Board and Executive Director - Tsanko Rumenov Arabadzhiev - Member of the Management Board and Executive Director - Jivko Ivanov Todorov – Member of the Management Board and Executive Director

Head office and registered address as of 31 December 2020:
1000 Sofia, Sredets area, 1 Dyakon Ignatii Str.
Registration Number - UIC 121856059

Joint auditors of Bulgarian Development Bank EAD:

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cebgreceptionteam@deloittece.com

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26, Cherni Vrah Blvd.
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ADDRESS

TO THE MINISTER OF ECONOMY OF THE REPUBLIC OF BULGARIA,

EXERCISING THE RIGHTS OF SOLE OWNER OF THE CAPITAL OF "BULGARIAN DEVELOPMENT BANK" EAD

Dear Minister,

The past 2020 was marked by the COVID-19 global pandemic and the economic and social crisis that followed, leading to serious challenges for businesses and banks.

BDB starts 2021 with high liquidity and capital adequacy, and with a new set of products and solutions for business, as well as financial instruments for risk sharing with financial institutions. The Bank and our banking group will continue to support the economic recovery and development of the country.

In 2020, the assets of the Group reached BGN 3,763,918 thousand, growing by 20.5% compared to 2019. The operating income of BDB before impairment and provisions for 2020 is BGN 31,625 thousand, with net a negative financial result for the year of BGN (231,488) thousand, incurring, during the year, net costs for impairment and provisions of BGN (263,390) thousand.

The decrease in the reported financial result was due to the significantly higher amount of accrued expenses for impairment on credit exposures, standing at BGN 138,871 thousand for 2020, and accrued provisions under the anti-COVID-19 guarantee programs of BGN 120,308 thousand.

The reason for the unprecedentedly large movements in asset and provision amounts, and respectively, the net financial result, is the implementation of the special mandates and programs assigned to BDB by the Government of the Republic of Bulgaria to counter the economic consequences of the crisis caused by the coronavirus pandemic, as well as the conservative assessment for impairment accrual on certain credit exposures of the Group.

As of the end of the year, the capital adequacy of the BDB is 32.8% compared to the average of 22.7% for the banking system and much higher than the minimum capital adequacy required by BNB. The liquidity coverage of the Bank as at 31 December 2020 is 551.91% compared to the average of 279.0% for the banking system.

Pursuant to Decision of the Council of Ministers No 215 of 27.03.2020 and the approved increase of the state's shareholding in the capital of the Bank by BGN 700 million, BDB launched guarantee programs to support business and individuals:

- By Decision No 257 of 14 April 2020, the Council of Ministers approved the Interest-free loan guarantee program to protect people deprived of the opportunity to work due to the COVID-19 pandemic, with a budget of BGN 200 million, proposed by the BDB.

BULGARIAN DEVELOPMENT BANK

- By Decision No 310 of 7 May 2020, the Council of Ministers approved the Portfolio Guarantee Programme to support the liquidity of enterprises affected by the state of emergency and the COVID-19 epidemic proposed by BDB, with a budget of BGN 500 million.

By participating in the initiative of the Investment Fund "Three Seas" the Bank will actively support the implementation of priority projects in the field of transport, digital and energy infrastructure, helping to provide part of the necessary funding to strengthen cooperation between member states in the Black, Adriatic and Baltic Sea regions. The representatives of the Bank in the management bodies of the Fund will work for the creation of a second investment instrument and a program to support the innovation and development of high-tech projects and companies in the countries of the Three Seas Initiative region.

With the help of the financial instruments of the Pan-European Guarantee Fund, BDB will present three new products on the Bulgarian market for small and medium-sized businesses, the sector of creative industries and start-ups in production. The programme, amounting to EUR 40 million, is implemented with the Pan-European Guarantee Fund as partner and through it the BDB will be able to grant direct loans under easier loan terms.

The successful development of the guarantee programs of the National Guarantee Fund EAD continued during the year.

The subsidiaries established in 2019 developed their portfolios and the reaching BGN 39,375 thousand for BDB Leasing EAD and BGN 12,505 thousand for BDB Factoring EAD.

BDB Microfinancing EAD (previously Microfinancing Institution JOBS EAD) maintained its position on the market for small loans to enterprises.

Capital Investment Fund AD made its first investments in two manufacturing dynamically developing, export-oriented enterprises.

We thank all colleagues and employees of the banking group for their hard work and dedication to the mission of the BDB over the past extremely complex year, marked by an unprecedented crisis and challenges for the banking group. We thank our customers, creditors, partners and shareholder for their trust and collaboration, expecting new joint initiatives and success.

Respectfully yours,

EXECUTIVE DIRECTORS:

VLADIMIR GUEORGUIEV **TSANKO ARABADZHIEV** **JIVKO TODOROV**

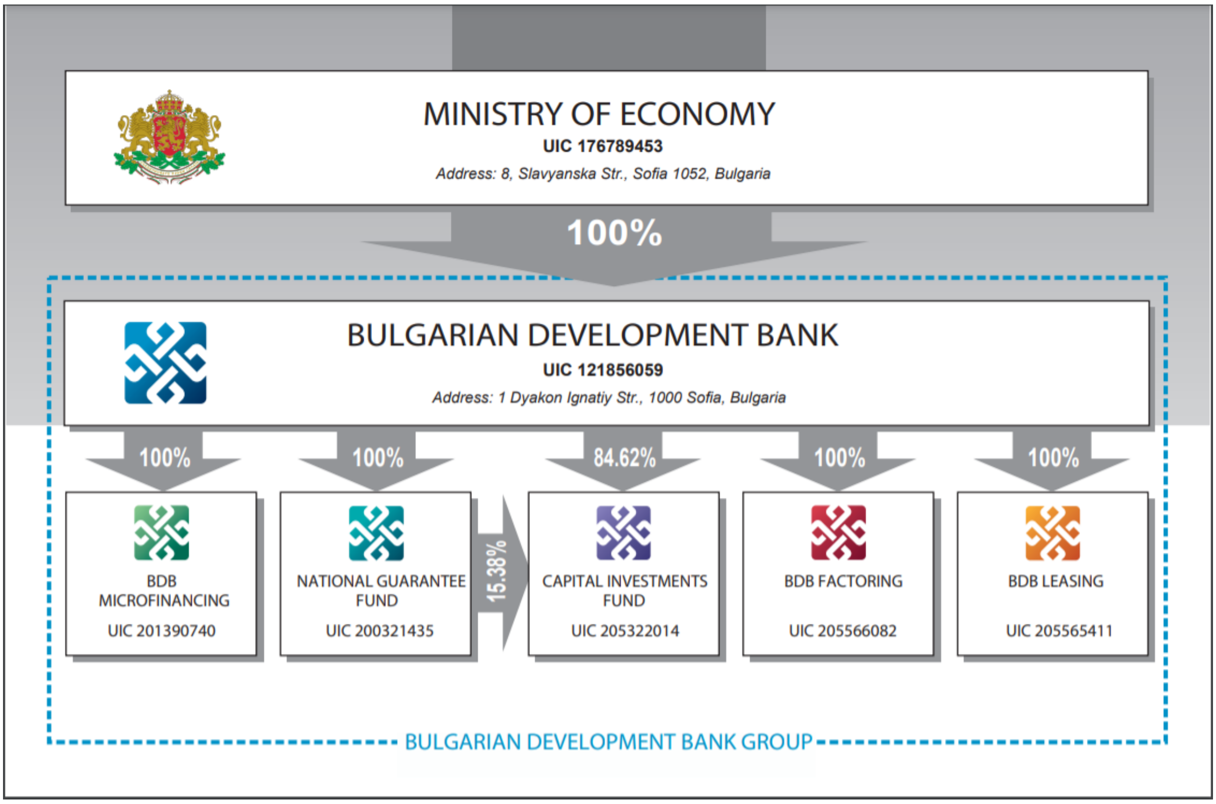
BULGARIAN DEVELOPMENT BANK BULGARIAN DEVELOPMENT BANK SOFIA

2 INFORMATION ABOUT THE BDB GROUP

2.1 THE BDB GROUP

As of the end of 2020, the Financial Group Bulgarian Development Bank [1] (the “Group”, „BDB Group“ or the „Financial Group“) comprises Bulgarian Development Bank EAD (“BDB”, the “Bank”) and its subsidiaries - National Guarantee Fund EAD (“NGF”), BDB Microfinancing EAD (former name Microfinancing Institution Jobs EAD [2] (“BDB Microfinancing”), Capital Investments Fund AD (“CIF”), BDB Leasing EAD (“BDB Leasing”) and BDB Factoring EAD (“BDB Factoring”).

Shareholder structure as of the date of approval of the Management report.



The number of employees of the BDB Group as at 31 December 2020 is 281 (as at 31 December 2019: 247 employees).

At the end of 2020, the BDB Group had no liabilities under existing or new issues of securities.

As of 31 December 2020, there were no pending court, administrative or arbitration proceedings related to liabilities or receivables of the BDB Group, amounting to 10 per cent or more of its equity.

[1] At the end of 2020, the Bank is a sole owner of the capital of Trade Center Maritsa EOOD (TCM); however, the company is not a part of the strategic business model of the Financial Group of BDB.

[2] The name of the company Microfinancing Institution Jobs EAD was changed to BDB Microfinancing EAD effective as of 12 April 2021.

The BDB Group complies with the applicable Bulgarian and European environmental protection legislation. The Group conducts an environmental impact analysis of all projects for which such an analysis is required under the applicable legal framework. In the project implementation process, the BDB Group requires the submission of the necessary permits and documents, and strictly monitors the precise implementation of the projects. Subject to stricter environmental requirements set out in the loan agreements with external creditors, the Group requires compliance with these higher standards by its clients and monitors their performance.

In terms of human resources development, the focus continued to be on promoting the BDB Group as a preferred employer, offering competitive conditions for internal corporate development, supporting the upgrade of employees' expertise and professional growth. Given the complicated epidemic situation in the country related to the spread of COVID-19 and according to the requirements of the health authorities, strict measures have been introduced to preserve the health of employees, including the creation of physically protected jobs, as well as the widespread application of a remote working regime. This ensured the continuity of the working process, as well as addressing the increased volume of work in order to achieve the best possible results.

The BDB Group has no dedicated R&D unit and no R&D activities have been performed during the reporting period.

The BDB Group's financial performance and ratios are stable. There are no non-financial indicators, the value of which would affect the results of its principal activity.

2.2 Bulgarian Development Bank EAD

Bulgarian Development Bank EAD, UIC 121856059 was established on 11 March 1999 as a joint-stock company under the name of Encouragement Bank AD. By means of the Bulgarian Development Bank Act (BDBA), on 23 April 2008 the name and scope of activity of the Bank were changed, so as to be able to apply schemes and instruments to finance public investments and projects of priority for the country's economy.

On 13 May 2021 the Council of Ministers adopted Decision No 414 to increase the state's shareholding in the capital of Bulgarian Development Bank EAD. This decision approves the increase in the shareholding of the state in the capital of Bulgarian Development Bank EAD by acquiring by donation all shares held by DSK Bank EAD in the capital of Bulgarian Development Bank EAD, namely 8 dematerialized shares, each with a nominal value of BGN 100, a total of BGN 800, representing 0.000055 per cent of the capital of Bulgarian Development Bank EAD.

On 14 May 2021, a contract was concluded for the donation of 8 dematerialized shares between DSK Bank and the Republic of Bulgaria. The transfer of ownership of the shares is registered with the Central Depository of the Republic of Bulgaria.

On 4 June 2021, Bulgarian Development Bank was registered in the Commercial Register and the register of non-profit legal entities as a sole – owned commercial company.

The objectives of Bulgarian Development Bank EAD (BDB) are:
1. Improving, stimulating and developing the overall economic, export and technological potential of small and medium-sized enterprises by facilitating their access to finance;
2. Attracting and managing medium- and long-term local and foreign resources necessary for the realization of the economic development of the country;
3. Implementation of schemes and instruments to finance public investment and projects that are a priority for the country's economy;
4. Raising funds and managing projects from international financial and other institutions;
5. Raising funds and providing funding in order to reduce regional imbalances in the country.

As the only state bank in the country, BDB carries out financing under programs specifically assigned to it by the Government of the Republic of Bulgaria.

The exposure to a single client or group of related clients other than credit institutions, central governments and central banks follows the requirements and limitations of Regulation 575/2013/EU, taking into account the effect of credit risk mitigation in a procedure set by the Managing Board.

Bulgarian Development Bank EAD is a credit institution that holds license No B25/1999 for carrying out banking activities by the Bulgarian National Bank with the last update of the license under Order No RD22-2272/ 16.11.2009 of the Governor of the BNB.

Bulgarian Development Bank EAD provides investment services and carries out investment activities under Art. 6, para. 2 of the Markets in Financial Instruments Act (MFIA), as well as additional services under Art. 6, para. 3 of MFIA on the basis of the license issued by the Bulgarian National Bank. The Bank does not provide investment services and activities under Art. 6, para. 2, item 8 and 9 of MFIA – organization of a multilateral trading facility and an organized trading facility.

BDB is governed in accordance with Article 5 of BDBA, according to which the Bank has a two-tier management system with the Minister of Economy exercising the state's rights at the General Meeting of Shareholders of the Bank. Members of BDB's management bodies are appointed in compliance with BDBA, Credit Institutions Act, Commerce Act, and the Regulations on their implementation, adopted by the Bulgarian National Bank.

In 2020, two increases were made to the capital of the BDB in accordance with the following acts adopted by the Government of the Republic of Bulgaria:

- Decree No 52 of the Council of Ministers of 26 March 2020 and Decision No 215 of 27 March 2020: the capital was increased by BGN 700,000 thousand;
- Decree No 134 of the Council of Ministers of 18 June 2020 and Decision No 402 of the Council of Ministers of 18 June 2020: the capital was increased by BGN 140,000 thousand.

On 2 April 2020, an extraordinary General Meeting of Shareholders of the Bank was held, at which a decision was taken to increase the capital with a cash contribution of the state in the amount of BGN 700,000,000 – by issuing 7,000,000 new registered dematerialized shares with a nominal value of BGN 100 each.

On 6 July 2020, an extraordinary General Meeting of Shareholders of the Bank was held, at which a decision was taken to increase the capital of the Bank with a cash contribution of BGN 140,000,000 - by issuing 1,400,000 new registered dematerialized shares with voting rights with a nominal value of BGN 100 each.

As of 31 December 2020, the capital of the Bank amounts to BGN 1,441,773,500 and consists of 14,417,735 ordinary registered shares with voting rights with a nominal value of BGN 100 each. As of 31 December 2020, the entire amount of capital was paid in, with the ownership of the capital distributed as follows: 99.99994% is owned by the Bulgarian state, represented by the Minister of Economy, 0.00006% is owned by DSK Bank. At the date of approval of this report the capital of BDB is 100% owned by the Bulgarian state, represented by the Minister of Economy.

Bulgarian Development Bank EAD has not acquired its own shares under Art. 187e of the Commerce Act (CA) in 2020.

There are no shares acquired, owned or transferred by the members of the management bodies during the year. Pursuant to Art. 6, para. 4 of the BDBA, the members of the management and control bodies, procurators and senior management may not hold shares, and no options may be granted to them on BDB securities, and no arrangements may arise in subsequent reporting periods, as a result of which changes in the share held by current shareholders may occur in the future period.

In 2020 the Bank made the following changes in governance and structure.

2.2.1 Significant changes in the management, the Statute, Audit committee and structure of the Bank since the beginning of 2020 until the date of approval of this report

In 2020 and 2021, until the date of approval of this report the Bank made the following changes in governance and structure.

2.2.1.1 Changes in the Bank's Management Board

By Decision of the Supervisory Board of BDB under Protocol No 10 of 6 April 2020 Mr. Jivko Ivanov Todorov was elected as a new member of the Management Board of BDB. Mr. Jivko Todorov is authorized to represent and manage the Bank as Executive Director. The circumstances are recorded in the Commercial Register on 14 April 2020.

By Decision of the Supervisory Board of BDB under Protocol No 12 of 8 April 2020, the authorization of the Chief Executive Director to represent the Bank was withdrawn and a decision was taken to dismiss Mr. Stoyan Todorov Mavrodiev as a member of the Management Board of the Bank. The circumstances are recorded in the Commercial Register on 22 April 2020.

By Decision of the Supervisory Board under Protocol No 12 of 14 April 2020, Mr. Panayot Ivov Filipov was elected as a new member of the Management Board of BDB. This circumstance was entered in the Commercial Register on 24 April 2020. Mr Panayot Filipov is authorized to represent and manage the Bank as Executive Director. This circumstance was entered in the Commercial Register on 30 April 2020.

By Decision of the Supervisory Board under Protocol No 18 of 24 April 2020, the authorization of the Executive Director to represent the Bank was withdrawn and a decision was taken to dismiss Mr. Rumen Dimitrov Mitrov as a member of the Management Board of the Bank. This circumstance was recorded in the Commercial Register on 30 April 2020.

By decision of the Supervisory Board under Protocol No 18 of 30 June 2021, Vladimir Rashkov Gueorguiev, Tsanko Rumenov Arabadzhiev and Krum Georgiev Georgiev were elected as new members of BDB's Management Board. This circumstance was entered in the Commercial Register on 7 July 2021. By decision of the Management Board under Protocol No 44/30.06.2021, Mr. Vladimir Rashkov Gueorguiev and Mr. Tsanko Rumenov Arabadzhiev are authorised to represent and manage the Bank as Executive Directors. This circumstance was entered in the Commercial Register on 7 July 2021. Mr. Krum Georgiev was elected as chairman of the Management Board.

On 14 July 2021 Nikolay Dimitrov Dimitrov and Panayot Ivov Filipov were deleted from the Commercial Register as members of the Management Board.

2.2.1.2 Changes in the Bank's Supervisory Board

By decision of the General Meeting of Shareholders of the Bank on 20 August 2020, Mr. Luchezar Dimitrov Borisov was dismissed as a member of the Supervisory Board, and Mr. Stamen Stamenov Yanev was approved to take his place. With registration in the Commercial Register of 26 August 2020, the participation of Mr. Luchezar Dimitrov Borisov as member of the Supervisory Board of the Bank was deleted, and with an entry from the same date, Mr. Stamen Stamenov Yanev was registered.

By decision of the sole owner of the capital of BDB under a Protocol of 25 June 2021, Valentin Lyubomirov Mihov and Vasil Atanasov Shtonov were elected as members of the Supervisory Board of the Bank. This circumstance was entered in the Commercial Register and the register of non-profit legal entities on 7 July 2021. Mr. Valentin Lyubomirov Mihov was elected as chairman of the Supervisory Board of the Bank.

The decision of the sole owner of the capital of BDB under protocol of 27 May 2021, by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank, is about to be registered in the Commercial Register.

2.2.1.3 Changes in the Statute of BDB

By decision of the general meeting of shareholders, held on 20.08.2020, amendments to the Statute of the Bank related to its management were adopted - the position "chief executive director" was deleted, amendments were made to the functions of the members of the Management Board and executive directors, reflected in the provisions of Art. 54, 57, 59 and 59a of the Statute of the Bank. The Executive Directors organise the implementation of the decisions of the management bodies, have equality and distribute their responsibilities among themselves, each of which shall be responsible for the respective filed of the Bank's activities. These changes were entered in the Commercial Register on 03.09.2020.

By decision of the Minister of Economy under Protocol of 21 May 2021, amendments were made in the Statute of the Bulgarian Development Bank, most of the changes related to reflecting the change in ownership of the capital of the Bank (sole shareholder company). The amendments to the Statute, which explicitly state that the priority in the Bank's credit activity, should be indicated as essential for lending to export-oriented small and medium-sized enterprises with high added value. A restriction has been introduced for BDB to form exposures to one client or group of related clients whose total amount exceeds BGN 5 million, and this restriction does not apply to other credit institutions, the Council of Europe Development Bank, the European investment activity, the European Investment Fund, development banks from Member States of the European Union, as well as in the cases under Art. 7 (when BDB implements specifically government-mandated programmes). A requirement has been introduced for exposures to a client or group of related clients whose amount exceeds BGN 1,000,000 to be approved by the Management Board by unanimous decision and only after the permission of the Supervisory Board.

By decision of the Minister of Economy under a protocol of 10 June 2021, new amendments were adopted in the Statute of Bulgarian Development Bank EAD, which are related to the number of the management and supervisory bodies of the Bank. According to the changes in the Statute, the Supervisory Board consists of three to seven persons, the Management Board consists of three to seven members.

By decisions of the Minister of Economy under protocol of 1 June 2021 and under protocol of 20 July 2021, new amendments have been adopted in the Statute of Bulgarian Development Bank EAD, under which the limit for exposures of more than BGN 5 million does not apply to the subsidiaries of the Bank. The Statute explicitly specifies that the Bank shall not form new exposures on an individual and consolidated basis to one client or group of related clients whose total amount exceeds the amount of BGN 5,000,000. It is also specified that the approval of credit transactions and changes to existing contracts is carried out in accordance with the Bank's current rules on credit activity, the Statute and the applicable legislation.

These amendments to the Statute have been approved by the Bulgarian National Bank and have been entered into the Commercial Register and the register of non-profit legal entities under the lot of Bulgarian Development Bank EAD.

2.2.1.4 Changes in the Audit Committee of Bulgarian Development Bank EAD

There are no changes in the Audit Committee of BDB in 2020.

By decision under Protocol of 25.05.2021 of the Minister of Economy exercising the rights of the sole owner of BDB the following Audit Committee members were released: Krassimir Vasilev Yordanov, Kalina Ivanova Mavrova and Rositsa Nikolova Grigorova. They were replaced by Dragomir Ivanov Vuchev, Valentin Lyubomirov Mihov and Vassil Atanasov Shtonov. By decision under Protocol of 22.06.2021 of the Minister of Economy exercising the rights of the sole owner of BDB Mr. Valentin Lyubomirov Mihov was released from the Audit Committee and by decision of 07.07.2021 Mrs. Gergana Stoyanova Moskova was elected as a member.

On 16.09.2021 the Minister of Economy approved a new Status of the Audit Committee.

The members of the Audit Committee as of the end of 2020 and as of the date of approval of this report are disclosed in section 6.2. of Appendix 1: Corporate Governance Statement of BDB Group.

2.2.1.5 Change in the structure of the Bank

Changes in 2020:

By decisions of the Management Board of 12 May 2020, 22 June 2020 and 21 August 2020, confirmed by the Supervisory Board by decision of 14 May 2020, 29 June 2020 and 1 September 2020, the Bank has made changes to its organizational structure as follows:

- Closed the departments General Secretary and Cabinet of Management Board;
- Transferred departments "Strategic Development and Planning", "Public Relations" and "Concessions" previously subordinated to the head of Cabinet of the Management Board to executive director and department "Strategic Development and Planning" is transformed to a division and renamed to "Strategic Development";
- "Classified Information" Department is transformed to "Classified Information" Division;
- "Secretariat" Department is separated from "Administration" Division and is directly subordinated to an executive director;
- The position "Data Protection Officer", part of "Classified Information" Division is separated and is directly subordinated to an executive director;
- A new Division "Monitoring and Financial Instruments" was established.

As of 31.12.2020, for the purposes of separation of functions and control between the executive directors of BDB, the organizational structure of the Bank is grouped into three main sectors, the allocation of the resources being as follows:

Sector 1

- Risk Division
- Credit Administration Division
- Problem Receivables Division
- Legal Division
- Information Technology Division
- Classified Information Division
- Data Protection Officer

Sector 2

- Corporate Banking Division
- Treasury Division
- External Programmes Division
- Investment Banking and Project Finance Division
- International financial institutions and EU funds Division
- Monitoring and Financial Instruments Division
- Administrative Division
- Human Resources Division
- Security Division
- Concessions Department
- Secretariat Department

Sector 3

- Accounting Division
- Planning, Analysis and Regulation Division
- Operations & Customer Service Division
- Compliance Division
- Strategic Development Division
- Public Relations Department
- Chief Economist

The allocation of responsibilities among the members of the Management Board of the BDB is as follows:

Sector 1 – Mr. Panayot Ivov Filipov, Executive Director, Member of the Management Board
Sector 2 – Mr. Nikolay Dimitrov Dimitrov, Executive Director, Member of the Management Board
Sector 3 – Mr. Jivko Ivanov Todorov, Executive Director, Member of the Management Board

In 2021 until the date of approval of this report the Bank has made changes in its organizational structure:

By decision of the MB approved by the SB on 25 June 2021 and complied with the changes in the membership of MB and SB in 2021 a change in the organizational structure of the Bank was adopted – the organizational structure is divided into four sectors, which have the following members of the Management Board:

Sector 1, with a structure subordinated to Mr. Krum Georgiev Georgiev, Chairman of the Management Board:

- Risk Division
- Credit Administration Division
- Problem Receivables Division
- Classified Information Division
- Security Division
- Data Protection Officer

Sector 2, with a structure subordinated to Mr. Vladimir Rashkov Gueorguiev, Executive Director and Member of the Management Board:

- Corporate Banking Division
- Investment Banking and Project Finance Division
- Legal Division
- Operations and Customer Service Division
- Secretariat Department
- Concessions Department

Sector 3, with a structure subordinated to Mr. Tsanko Rumenov Arabadzhiev, Executive Director and Member of the Management Board:

- Treasury Division
- External Programmes Division
- International Financial Institutions and EU funds Division
- Financial Instruments Division
- Human Resources Division
- Administrative Division

Sector 4, with a structure subordinated to Mr. Jivko Ivanov Todorov, Executive Director and Member of the Management Board:

- Chief Economist
- Accounting Division
- Planning, Analysis and Regulation Division
- Strategic Analysis and Development Division
- Compliance Division
- Information Technology Division
- Public Relations Department

“Internal Audit” of the Group - the internal audit function of the Group is independent and in direct subordination to the Supervisory Board.

In 2021 to the date of approval of this report the following changes in the organizational structure of the Bank were made:

By decision of the Management Board as of 12.08.2021 the name of the division "Monitoring and Financial Instruments" was changed to "Financial Instruments" in order to focus on the main activity while maintaining the current functions, and the change is reflected in the organizational structure of the Bank.

By decision of the Management Board dated 11.08.2021 and as of 24.08.2021, approved by decisions of the Supervisory Board dated 25.08.2021, as of 01.09.2021, the following changes were made in SectorNo 4:

- The Accounting Division is structured by functions, with the establishment of Internal Accounting Division, Business Accounting Division and Tax Methodology Division.
- The Strategic Development Division is restructured into the Strategic Analysis and Development Division and transferred under direct subordination of the sector executive director, as a result of which inefficient functions of the unit are eliminated.

With regard to the introduction of a strategy for more active direct lending to businesses, in accordance with the amendment of the Bank's Statute and in order to increase the loan portfolio, the Management Board decided to establish, as of 30.09.2021, a "Business Development " unit with the Corporate Banking Division and a Call Center unit with the Secretariat Department, as of October 6, 2021. The activities of the new units are focused on offering new attractive banking products, new customer programs supported by the Pan-European Guarantee Fund (PEGF), launching the digital platform and providing remotely up-to-date information on specific issues, given the lack of a branch network of the Bank.

The number of employees of the Bank at the end of 2020 is 235.

Bulgarian Development Bank EAD has no branches.

The head office and registered address of BDB is at 1, Dyakon Ignatii Str., 1000 Sofia City.

BDB complies with the applicable Bulgarian and European environmental protection legislation. The Group conducts an environmental impact analysis of all projects for which such an analysis is required under the applicable legal framework. In the project implementation process, BDB Group requires the submission of the necessary permits and documents, and strictly monitors the precise implementation of the projects. In case there are stricter environmental requirements set out in the loan agreements with external creditors, the Group requires compliance with these higher standards by its clients and monitors their performance.

In terms of human resources development, the focus continued to be on promoting the BDB Group as a preferred employer, offering competitive conditions for internal corporate development, supporting the upgrade of employees' expertise and professional growth. Given the complicated epidemic situation in the country related to the spread of COVID-19 and according to the requirements of the health authorities, strict measures have been introduced to preserve the health of employees, including the creation of physically protected jobs, as well as the widespread application of a remote working regime. This ensured the continuity of the working process, as well as addressing the increased volume of work in order to achieve the best possible results.

2.3 National Guarantee Fund EAD (NGF)

National Guarantee Fund EAD, UIN 200321435, is a company founded on 12 August 2008 on the basis of the Bulgarian Development Bank Act and was registered at the Commercial Register on 22 August 2008. According to the Credit Institutions Act (CIA), the National Guarantee Fund EAD is a financial institution entered in 2009 into the Register by BNB under Art. 3, Par. 2 of the CIA. In compliance with the Statute of the company the principal activities include:

- Issuing guarantees for supplementing the collateral under loans to small and medium-sized enterprises;
- Offering other products to small and medium-sized enterprises, like: guarantee for participation in a tender; performance guarantee; advance payment guarantee; guarantee for payment of a loan of an exporter, etc.;
- Issuing guarantees for supplementing collateral under loans to small and medium-sized enterprises, carrying out research and development and for implementing these products and scientific developments into the industry;

- Guarantees issued by NGF on its own risk may cover up to 50 per cent of the liability. With the amendments to the BDB Act promulgated in State Gazette No. 102 of 21 December 2012, the guarantees issued by the NGF with regard to guarantee schemes under the Rural Development Program 2007 - 2013 and Operational Program for Development of the Fisheries Sector 2007 - 2013 may cover up to 80 per cent of the liability;
- Other activities, not particularly prohibited by law.

The scope of activity of NGF EAD is stipulated in section X if the Bulgarian Development Bank Act (SG 43/29.04.2008).

In 2020, the Company did not establish branches or subsidiaries, did not acquire interests in any form in other commercial entities and did not implement commercial projects jointly with other enterprises.

The registered capital of the Company as of 31 December 2020 amounted to BGN 80,000,000 split into 800,000 shares with nominal amount of BGN 100 each. The shares are ordinary, materialised, registered and indivisible, and each share gives the right to one vote. The sole owner of the capital is BDB EAD. The capital of NGF is fully paid-in.

The seat and registered address of the NGF is 1000 Sofia, 1 Dyakon Ignatii Str. The Company rents an office in Sofia 1421, 105 Arsenalski Blvd.

The number of employees of NGF as of 31 December 2020 is 11.

As of 31 December 2020, NGF had no branches.

2.4 BDB Microfinancing EAD (former Microfinancing Institution JOBS EAD)

BDB Microfinancing EAD, UIN 201390740, was registered into the Commercial Registry on 14 January 2011. The scope of activity is micro-financing, including providing micro-loans, acquiring from third parties and leasing industrial equipment, automobiles and other vehicles, as well as other items /finance lease/, purchase and sale, and import of such items, consulting services, trade representation and mediation for local and foreign physical and legal bodies performing their activity in the country, as well as any other activity not forbidden by law.

By decision dated 23 March 2021 of the Management Board of BDB in its capacity of sole owner of the capital of BDB Microfinancing EAD the name of the company was changed (entered in the Commercial register on 12 April 2021) from Microfinancing Institution JOBS EAD to BDB Microfinancing EAD and at the same time the company's statute was also changed. The change reflects more fully the focus of the company in support of micro businesses, as well as its affiliation to the Financial Group of the Bulgarian Development Bank EAD. For 11 years BDB Microfinancing EAD has been creating conditions for successful development of micro and small enterprises, using effective models and practices in the field of lending and leasing.

The registered capital of BDB Microfinancing EAD as of 31 December 2020 amounted to BGN 7,643,000 split into 76,430 shares with nominal amount of BGN 100 each. The shares are ordinary, materialised, registered and indivisible, and each share gives the right to one vote. The Company's capital is fully paid-in.

By decision dated 1 September 2021 the Management Board of BDB, in its capacity of sole owner of the capital of BDB Microfinancing EAD the company's capital was increased with cash amount of BGN 7 million by issuing 70,000 new ordinary, registered shares with nominal amount of BGN 100 each. The new shares are subscribed by BDB and the increase is entered in the Commercial Register on 13 October 2021. In relation to the capital increase the Statute of BDB Microfinancing EAD was also changed.

The seat and registered address of BDB Microfinancing EAD is 1000 Sofia, 1 Dyakon Ignatii Str. The Company rents an office in Sofia 1421, 105 Arsenalski Blvd.

The number of employees of BDB Microfinancing EAD as of 31 December 2020 is 15.

As of 31 December 2020, BDB Microfinancing EAD had no branches.

2.5 Capital Investments Fund AD (CIF)

Capital Investments Fund AD was incorporated on 24 August 2018 and registered on 04 October 2018 as a joint-stock company with 100 percent of ultimate participation of BDB (84.62% of direct participation of BDB, or 550,000 shares, and indirect participation through NGF – 15.38%, the owner of the remaining 100,000 shares). The registered share capital as of 31 December 2020 consisted of 650,000 registered shares with par value of BGN 100 each, totalling BGN 65,000,000 and is fully paid-in.

The scope of activity of CIF includes:

- Participation in the capital of small and medium-sized enterprises;
- Provision of consulting services regarding the capital structure of small and medium-sized enterprises; advice and services on incorporation of entities under Article 261 of the Commercial Act;
- Investment consultancy;
- Consulting services on the management of pools of securities of small and medium-sized enterprises; as well as other activities, not specifically prohibited by law.

A key priority is to ensure capital for the growth of small and medium-sized enterprises with established business model and opportunities for accelerated expansion on the internal and international markets.

The seat and registered address of the Capital Investments Fund AD is 1000 Sofia, 1 Dyakon Ignatii Str.

The number of employees of CIF as of 31 December 2020 is 2.

As of 31 December 2020, CIF had no branches.

2.6 BDB Leasing EAD (BDB Leasing)

BDB Leasing EAD, UIN 205565411 was established on incorporation meeting held on 06.03.2019 and registered into the Commercial Register on 12.03.2019. Bulgarian Development Bank EAD has 100% direct participation in the company.

The scope of activity is financial leasing, lending with funds that are not raised through public attraction of deposits or other repayable funds, all additional and servicing leasing and lending activities.

As of 31 December 2020, the share capital of the company amounts to BGN 20,000,000 or 200,000 registered shares with a par value of BGN 100 each. The share capital of BDB Leasing is fully paid-in at the time of the establishment and amounts to BGN 2 million, distributed to 20,000 ordinary registered shares with a par value of BGN 100 each. With Protocol No. 83/14.09.2020 the Management Board of BDB, in its capacity of sole owner decided to increase the capital of BDB Leasing from BGN 2,000,000 to BGN 20,000,000 by issuing 180,000 new shares with par value of BGN 100. The capital was fully paid-in on 15.09.2020 and the increase was entered in the Commercial Register on 24.09.2020.

The seat and registered address of BDB Leasing EAD is 1000 Sofia, 1 Dyakon Ignatii Str. The company uses rented office in Sofia, 10 Stefan Karadzha Str., floor 2.

The number of employees of BDB Leasing as of 31 December 2020 is 10.

As of 31 December 2020, BDB Leasing had no branches.

2.7 BDB Factoring EAD (BDB Factoring)

BDB Factoring EAD, UIN 205566082 was established on incorporation meeting held on 06.03.2019 and registered into the Commercial Register on 13.03.2019. Bulgarian Development Bank EAD has 100% direct participation in the company.

The scope of activity is the execution of transactions for the transfer of one-time or periodic cash receivables arising from the supply of goods or the provision of services /factoring/, lending with funds that are not raised by public attraction of deposits or other repayable funds and any additional and servicing activities of factoring and lending.

As of 31.12.2020 the registered share capital of the company amounts to 20,000 registered shares with nominal value of 100 each.

The seat and registered address of BDB Factoring is 1000 Sofia, 1 Dyakon Ignatii Str. The company uses rented office in Sofia, 10 Stefan Karadzha Str., floor 2.

The number of employees of BDB Factoring EAD as of 31 December 2020 8.

As of 31 December 2020, BDB Factoring EAD had no branches.

By Protocol №21/23.03.2021 the Management Board of BDB in its capacity of sole owner of the capital of BDB Factoring EAD took a decision to merge BDB Factoring in BDB, and BDB will assume fully the activities of BBR Factoring EAD, as well as its assets and liabilities. The Bulgarian National Bank and the Commission for Protection of Competition have adopted decisions in relation to the transformation and finalization of the procedure is forthcoming. As of the date of approval of this report the transformation of BDB Factoring EAD by its merger with the Bulgarian Development Bank EAD is still ongoing.

2.8 Significant changes in the management bodies and Statutes of subsidiaries since the beginning of 2020 until the date of approval of this report

2.8.1 BDB Microfinancing EAD (previously Microfinancing Institution JOBS EAD) (BDB Microfinancing EAD)

By Decision under Protocol of 13.05.2020 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD Mr. Rumen Dimitrov Mitrov, Mr. Nikolay Dimitrov Dimitrov, Mr. Angel Atanasov Djalazov and Mrs. Hristina Atanasova Todorova are released as members of the Board of Directors of *BDB Microfinancing* EAD. Mr. Panayot Ivov Filipov, Mrs. Ivana Borisova Tzaneva and Mrs. Angelina Georgieva Angelova are elected as new members. The authorization of the procurator Hristina Todorova is withdrawn. The circumstances are recorded in the Commercial Register on 20.05.2020.

By Decision of the Management Board of BDB EAD in its capacity of sole owner of *BDB Microfinancing* EAD approved the election of Mrs. Ivana Borisova Tzaneva as Executive Director of the company. The circumstance is recorded in the Commercial Register.

By Decision under Protocol of 22.05.2020 of the Management Board of BDB EAD in its capacity of sole owner of *BDB Microfinancing* EAD Mr. Stamen Stamenov Yanev is elected as new member of the Board of Directors. The circumstance is recorded in the Commercial Register on 29.05.2020.

By Decision under Protocol of 30.07.2020 of the Management Board of BDB EAD in its capacity of sole owner of *BDB Microfinancing* EAD Mr. Stamen Stamenov Yanev was released as a member of the Board of Directors of the company. The circumstance is recorded in the Commercial Register on 05.08.2020.

By Decision under Protocol of 24.08.2020 of the Management Board of BDB EAD in its capacity of sole owner of *BDB Microfinancing* EAD Mr. Iliya Radkov Komitov was elected for member of the Board of Directors of *BDB Microfinancing* EAD and this circumstance was recorded in the Commercial Register on 28.08.2020.

By Decision under Protocol of 17.08.2021 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD Mr. Vladimir Rashkov Gueorguiev was elected for member of the Board of Directors of BDB Microfinancing EAD and this circumstance was recorded in the Commercial Register on 23.08.2021. Mr. Vladimir Rashkov Gueorguiev was also elected for chairman of the Board of Directors of the company.

By Decision under Protocol of 23.08.2021 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD Panayot Ivov Filipov and Angelina Georgieva Angelova were released as members of the Board of Directors of the company and Boyan Stefanov Byanov was elected as new member. These circumstances are recorded in the Commercial Register on 30.08.2021.

2.8.2 BDB Leasing EAD (BDB Leasing)

By Decision under Protocol of 13.05.2020 of the Management Board of BDB EAD in its capacity of sole owner of BDB Leasing EAD Mr. Stoyan Todorov Mavrodiev, Mr. Rumen Dimitrov Mitrov and Mr. Nikolay Dimitrov Dimitrov are released as members of the Board of Directors of BDB Leasing EAD. Mr. Jivko Ivanov Todorov, Mrs. Antoniya Hristoforova Dobreva and Mr. Emil Valkanov Valkanov are elected as new members. At the same time the authorization of the procurator Emil Valkanov Valkanov is withdrawn. Mr. Jivko Ivanov Todorov is elected as chairman of the Board of Directors, Mr. Emil Valkanov Valkanov is elected as vice chairman of the Board of Directors and Executive Director. The circumstances are recorded in the Commercial Register on 20.05.2020.

By Decision under Protocol of 13.05.2020 the Management Board of BDB EAD in its capacity of sole owner of BDB Leasing EAD approved the authorization of Mr. Ivaylo Kirilov Popov as a procurator of BDB Leasing EAD. The circumstance is recorded in the Commercial Register on 1.06.2020.

By Decision under Protocol of 17.08.2021 the Management Board of BDB EAD in its capacity of sole owner of BDB Leasing EAD released Jivko Ivanov Todorov as a member of the company's Board of Directors. He was replaced by Krum Georgiev Georgiev. The circumstance is recorded in the Commercial Register on 23.08.2021. Mr. Krum Georgiev was elected for Chairman of the company's Board of Directors.

By Decision Protocol of 14.09.2020 the Management Board of BDB EAD in its capacity of sole owner of the capital of BDB Leasing EAD, the capital of BDB Leasing EAD was increased with cash amount of BGN 18,000,000 through issue of 180,000 new ordinary, registered shares with par value of BGN 100 each. The new shares are subscribed by BDB. In relation to the capital increase the Statute of the company was also changed and the changes are recorded in the Commercial Register.

2.8.3 BDB Factoring EAD (BDB Factoring)

By Decision under Protocol of 13.05.2020 of the Management Board of BDB EAD in its capacity of sole owner of BDB Factoring EAD Mr. Stoyan Todorov Mavrodiev and Mr. Rumen Dimitrov Mitrov are released as members of the Board of Directors of BDB Factoring EAD. Mr. Panayot Ivov Filipov and Mr. Georgi Vanyushev Lilyanov are elected as new members. At the same time the authorization of the procurator Georgi Vanyushev Lilyanov is withdrawn. Mr. Panayot Filipov is elected as chairman of the Board of Directors, Mr. Georgi Vanyushev Lilyanov is elected as vice chairman of the Board of Directors and Executive Director of BDB Factoring EAD. The circumstances are recorded in the Commercial Register on 20.05.2020.

By Decision under Protocol of 26.05.2020 of the Management Board of BDB EAD in its capacity of sole owner of BDB Factoring EAD Mr. Nikolay Dimitrov Dimitrov is released as a member of the Board of Directors of BDB Factoring EAD. Mr. Todor Hristov Gunchev is elected as a new member of the Board of Directors. The circumstances are recorded in the Commercial Register on 3.06.2020.

By Decision under Protocol of 2.09.2021 of the Management Board of BDB EAD in its capacity of sole owner of BDB Factoring EAD Panayot Ivov Filipov and Todor Hristov Gunchev are released as members of the Board of Directors of the company and Tsanko Rumenov Arabadzhiev and Krum Georgiev Georgiev are elected as new members. The circumstances are recorded in the Commercial Register on 16.09.2021. Mr. Tsanko Rumenov Arabadzhiev is elected for chairman of the Board of Directors of the company.

2.8.4 Capital Investments Fund AD (CIF)

Mr. Stoyan Todorov Mavrodiev and Mr. Rumen Dimitrov Mitrov are released as members of the Board of Directors of Capital Investments Fund AD on extraordinary general meeting of the shareholders of Capital Investments Fund AD held on 13.05.2020. Mr. Tihomir Gochev Chemshirov and Mr. Tzvetomir Georgiev Tzanov are elected as new members of the Board of Directors. The changes are recorded in the Commercial Register on 20.05.2020.

By Decision under Protocol of 13.05.2020 of the Board of Directors of Capital Investments Fund AD Mr. Nikolay Dimitrov Dimitrov is elected as chairman of the Board of Directors and Mr. Tihomir Gochev Chemshirov is elected as vice chairman. At the same time Mr. Nikolay Dimitrov Dimitrov is elected as Executive Director of the company.
By Decision under Protocol of 12.08.2020 of the Board of Directors of the company Angel Hadjiev was authorized as procurator. The circumstance was recorded in the Commercial Register on 21.08.2020.
By Decisions of the general meeting of the shareholders of the company held on 30.07.2021, 13.08.2021 and 7.09.2021 new Board members are elected – Tsanko Rumenov Arabadzhiev, Stefan Stefanov Tamnev and Krasimir Tanev Atanasov. The members of the Board of Directors Nikolay Dimitrov Dimitrov and Tihomir Gochev Chemshirov are released.
These circumstances are recorded in the Commercial Register on 05.08.2021, 20.08.2021 and 14.09.2021, respectively.

Mr. Tsanko Rumenov Arabadzhiev is elected as chairman of the Board of Directors of the company and Mr. Stefan Stefanov Tamnev – as deputy chairman and Executive Director of the company.
By Decision of the general meeting of the shareholders of the company held on 29.09.2020 the Statute of Capital Investments Fund AD was changed amending technical mistake in art. 8 of the Statute and reducing the term for sending an invitation to convene the general meeting of shareholders of the company.

By decision of the general meeting of shareholders of the company held on 30 July 2021 the Statute of the Capital Investment Fund AD was amended, and the amendments are related to changes in the number of members of the Board of Directors, how to convene a general meeting of shareholders, and a clarification that the total amount of the Capital Investment Fund's participation in the capital of a commercial company may not exceed 10% of the capital of the fund and the amount of BGN 5,000,000.

2.8.5 National Guarantee Fund EAD (NGF)

By Decision under Protocol of 13.05.2020 of the Management Board of BDB EAD in its capacity of sole owner of National Guarantee Fund EAD Mr. Stoyan Todorov Mavrodiev, Mr. Angel Atanasov Djalazov and Andon Georgiev Georgiev are released as members of the Board of Directors of National Guarantee Fund EAD. Mr. Jivko Ivanov Todorov, Mr. Todor Lyudmilov Todorov and Mrs. Zaharina Damyanova Todorova are elected as new members. Mr. Jivko Todorov is elected as chairman of the Board of Directors, Mr. Todor Todorov is elected as vice chairman of the Board of Directors and Executive Director of the company. At the same time the authorization of the procurator Mr. Andon Georgiev Georgiev is withdrawn. The circumstances are recorded in the Commercial Register on 20.05.2020.
By Decision under Protocol of 16.09.2021 of the Management Board of BDB EAD in its capacity of sole owner of National Guarantee Fund EAD Mr. Deyan Petrov Kalapchiev was elected for member of the Board of Directors of National Guarantee Fund EAD and this circumstance was recorded in the Commercial Register on 27.09.2021.

3 HIGHLIGHTS, ACTIVITIES AND PROJECTS IN 2020

3.1 Key events and processes

3.1.1 Regulatory changes

In 2020, the following may be indicated as the most significant changes to the regulatory framework of the BDB Group: Guidelines on loan origination and monitoring of credit (EBA/GL/2020/06 of 29 May 2020) (applied from 30.06.2021); Guidelines on ICT and security risk management (EBA/GL/2019/04) (applied from 30.06.2020); Guidelines on fraud reporting under Article 96(6) of PSD2 (EBA/GL/2018/05) – consolidated version in force from 1 July 2020; Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02 of 2 April 2020); Guideline EBA/GL/2020/08 of 25 June 2020 amending Guideline EBA/GL/2020/02; Fifth Anti-Money Laundering Directive; new Ordinance No 38 of 21 May 2020 requirements for the activities of investment intermediaries, as well as changes to the Markets in Financial Instruments Act; Tax and Social Security Procedure Code in force as of 01.01.2020 /new Chapter Eight "A"/; Law on measures and actions during the state of emergency declared by decision of the National Assembly of 13 March 2020 and on overcoming the consequences; Law on Supplementation of the Obligations and Contracts Act.

3.1.2 Rating

In 2020, the international rating agency Fitch Ratings carried out its regular annual review and confirmed the credit rating of Bulgarian Development Bank EAD. In its following review in March 2021, Fitch Ratings revised the outlook for the Bank's long-term credit rating from "BBB" / stable to "BBB" / positive. This is the highest credit rating for a Bulgarian financial institution, and for BDB it is limited to the rating of the sovereign – the Bulgarian state. As a result of its regular annual review carried out in 2021, on 1 October 2021 Fitch Ratings confirmed the positive outlook for the long-term credit rating of the Bank "BBB".

Rating effective as of	As of 31.12.2018	As of 31.12.2019	As of 31.12.2020	As of the date of approval of the Management Report
Date of preparation of the rating	06.12.2018	27.11.2019	14.10.2020	01.10.2021
Long - term Rating (IDR, SRF)	„BBB“	„BBB“	„BBB“	„BBB“
Outlook	Stable	Stable	Stable	Positive

The rating agency's assessment is based on the reliable support of the sovereign - the Bulgarian State, the BDB's good financial performance, its good capitalisation, and its role in supporting the government's economic policy. The stable outlook shows the existence of a balance in risks associated with credit rating assessments.

The stable equity base contributes significantly to the high capital adequacy. BDB is the institution with the highest level of capitalization in the banking system of Bulgaria, significantly above the statutory minimum.

At the General Meeting of Shareholders of BDB held in October 2020, the audited financial statements of the institution for 2019 were adopted /separate and consolidated/, certified by the joint auditors Deloitte Audit OOD and Grant Thornton OOD. Bulgarian Development Bank EAD reported for 2019 a profit for distribution amounting to BGN 11,057 thousand. The General Meeting decided that the Bank's profit for 2019 should be allocated to Reserves.

3.1.3 Information technologies

The year 2020 was extremely challenging in the context of the global COVID-19 pandemic. One of the main changes for the BDB EAD Group was a change of business model from attendance to remote work. The main focus of the work of the IT teams was to ensure the operation of all business functions and processes from a distance and at the same time ensure the highest possible level of information security.

The IT infrastructure has been further backed up with an extended antivirus and anti-malware platform. Over the past year, a number of business processes in the bank and subsidiaries have been automated and numerous changes, resulting from the regulatory environment, have been implemented – changes to SWIFT, automated AML solution for monitoring payment transactions, changes in reporting to BNB, according to ECB requirements. Projects for the introduction of solutions for distance collaboration between the teams of the bank were rapidly implemented, an entirely new website of the Bulgarian Development Bank EAD and the subsidiaries were implemented, as well as an entirely new internal portal. A software platform was established for interaction with 12 partner banks of BDB EAD in the financial resource support program for companies and individuals in the context of the COVID-19 crisis.

3.1.4 Communications and public relations

In the field of internal communications, BDB Group's internal communications policy was further developed and improved in 2020. The Bank distributes a monthly internal electronic newsletter to its employees, a new intranet website of the Group was also developed and put into operation, which maintains daily specialized news sections, documents, photo materials and others.

In 2020, BDB launched activities for communication and publicity of government measures for individuals and businesses affected by the COVID-19 pandemic. The Bank established a crisis call center, developed and published a micro-portal with information about the programmes, including maintaining a public register of supported companies. Soon after the launch of the anti-crisis programmes, BDB conducted a massive information campaign with TV and audio clips, as well as PR publications in various media channels. The Bank regularly informs the representatives of the media and the legislature of the progress of the measures. The institution responds promptly to inquiries of citizens received by e-mail, telephone and social networks, as well as assists in the resolution of cases from the applicants of the programmes.

3.2 Business highlights

In 2020, the development of the Bank's product and credit portfolio, as well as the diversification of funding sources continued.

3.2.1 COSME+ Programme

At the end of 2020, BDB has concluded agreements under the Cosme+ Programme to support small and medium-sized businesses together with two commercial banks and five non-bank financial institutions. In 2020, under the Cosme+ Programme were concluded contracts for the total amount of EUR 26.1 million. Under the Programme a total of 252 loans were granted for the total amount of EUR 18.8 million.

Structured under the COSME mechanism of the European Investment Fund, the renewed BDB Programme offers banks and non-bank financial institutions up to 10 years of on-lend financing in euro at an interest rate of EUR 3M EURIBOR + 1.9% and a 60% guarantee (on principal and contractual interest up to 90 days) on sub-deals representing sub-loans and bank guarantees for the benefit of SMEs. The programme's budget is EUR 33,333,333 and the maximum exposure amount to SMEs is EUR 150,000. The programme considers with priority the requests of start-ups and offers reliefs in the provision of collateral of the final recipients - SMEs. The maximum annual interest on the regular principal on loan is up to 3M EURIBOR + 5.7% in general or up to 3M EURIBOR + 5.7% and 0% management commission for financing "Projects with Social Impact", encouraging the realization of investment projects with the main or predominant purpose to ensure real employment and integration of people with disabilities, young people without families and children subject to juvenile justice through the business of the businessman-borrower. The maximum total remuneration for commitment under a sub-transaction - bank guarantee is up to 2% per year. The programme provides for priority consideration of the requests of start-ups and creates relief in the provision of collateral by the final recipients - SMEs.

3.2.2 Leasing Line Programme

In 2020, the Leasing line programme continued its development. It is aimed at partners which are non-banking financial institutions – lessors registered at BNB and which are carrying out financial leasing. The programme is designed to lend to leasing companies in order to facilitate access to resources for the purchase and leasing of assets used in the business of small and medium-sized enterprises. The cost of financing is 3 months EURIBOR + 2.5%, but not less than 2.5%. Leasing companies finance SMEs up to a maximum of 6.5%.

In 2020, BDB implemented the Leasing line programme through a partnership with 7 leasing companies. Contracts totalling EUR 22.2 million were concluded with them. The funds under the Programme financed 817 leasing transactions with a total value of purchased assets of EUR 28.2 million.

3.2.3 Programme for indirect financing of private farmers, members of mutual credit cooperatives

In 2020, BDB continued to provide indirect funding to private farmers through mutual credit cooperatives, which are listed in the BNB register as non-bank financial institutions, which, due to their competitive business, are highly isolated from affordable lending resources provided by commercial banks and rely mainly on contributions to capital by their members or foreign capital. BDB offers an opportunity to fill this deficit by providing for a start budget of the Programme of BGN 15 million and a maximum individual on-lending limit to a credit cooperative of BGN 1.5 million for a five-year period, with very attractive interest rates and a 0% commission for funding management.

Under the Programme, a contract was concluded with a mutual credit cooperative from the Plovdiv region in the amount of BGN 1.5 million. As a result, 64 loans were granted to private farmers totalling BGN 1,019 thousand.

3.2.4 Operating Lease Programme

In 2020, BDB developed a product for indirect financing of SMEs lessees under operating lease contracts with a budget of EUR 30 million. The Programme provides revolving credit lines intended for the purchase of business assets leased to small and medium-sized enterprises carrying out business and investments in the Republic of Bulgaria. The cost of financing is 3 months EURIBOR + 4%, but not less than 3%.

In 2020, BDB implemented the Programme through a partnership with 2 leasing companies. Contracts in the total amount of EUR 6 million have been concluded with them.

3.2.5 Forward Programme

The Forward Programme was launched in 2015 and is designed to lend to commercial banks for the purpose of subsequent investment and working capital financing of micro, small and medium-sized enterprises. Under the Programme, BDB guarantees up to 30% of the portfolio of sub-loans (principals on sub-loans) formed under the Programme at an eligible limit (CAP) of the amounts paid under the guarantee commitment of no more than 20% of the guaranteed portfolio or the debt under the on-lend financing. The cost of financing is 3 months EURIBOR + 1.90% with banks obliged to provide loans to small and medium-sized enterprises at a maximum interest rate and a management fee/commission of up to 4.7%.

In 2020, BDB implemented the Forward Programme through partnership with 3 /three/ commercial banks. Contracts amounting to BGN 110 million were concluded.

As of 31 December 2020, the debt of the partner-banks under the Forward Programme was BGN 52.9 million.

The result of the Programme as of 31 December 2020 was 267 sub-loans to SMEs, totalling BGN 56.7 million.

3.2.6 BROD Programme

At the end of 2020, BDB launched a new product for indirect financing to small and medium-sized enterprises. The purpose and objectives of the BROD Programme are long-term targeted financing and opportunity for obtaining loans under attractive interest rates.

The budget of the Programme is EUR 20 million. The cost of financing is 6 months EURIBOR + 2.5%, but not less than 2.5%. The partners of the BROD programme finance SMEs at an interest rate of 6 months EURIBOR + 5.7% and maximum annual percent of costs up to 11%.

The maximum financing amount for partners of BDB EAD is the equivalent in EUR of BGN 5 million and in relation to the ultimate beneficiaries the maximum amount of the exposure to group of related parties is up to EUR 300 thousand. Only new sub-transactions are included, excluding refinancing.

During the reporting 2020 year, BDB EAD financed one non-banking financial institution with loan at the amount of EUR 2 million and as of the date of approval of the Management report the financed 2 non-banking financial institutions with EUR 4 million.

3.2.7 Credit guarantees anti-COVID-19

The implementation of measures by BDB in relation to the epidemic was initiated following a state aid notification procedure to the European Commission in relation to the implementation of specific measures to support the economy in relation to the COVID-19 epidemic. In April, the BDB received approval from the EC under the measure "Portfolio guarantees to support the liquidity of SMEs affected by the emergency situation and the COVID-19 epidemic" (SA 56933). In November, amendments to certain parameters of the Measure were notified in order to adapt to market demand (SA 59499).

In 2020, the Bank, on the basis of decisions of the Council of Ministers of the Republic of Bulgaria, became a guarantor to a group of Bulgarian commercial banks for loans to individuals and legal entities in order to overcome the consequences of the COVID-19 pandemic (see Note 37 of the accompanying consolidated financial statements and Note 36 of the separate financial statements). For these programmes, BDB adopted a special provisioning methodology in view of the specifics of the programmes, the customer profile and the structure of product-related inflow and cash outflow commitments as follows:

3.2.7.1 Programme for companies

The main parameters of the programme and the guaranteed loans are:

- The obligation to pay the guaranteed amounts is practically unconditional (for loans admitted in the program).
- The guarantees cover 80% of the principal on the loan. A maximum ceiling of payments was established – initially of 30%, and by decision of the Council of Ministers the ceiling was raised to 50%.
- The selection of borrowers is based on criteria related to the effects of the pandemic and not to the usual criteria for providing funding to legal entities. SMEs were included and at the end of 2020 large enterprises were also included by the amendments made.
- Banks have the option to include loans without the normally necessary collateral (20% coverage of collateral exposures is required). It is also possible to include a certain percentage of exposures already formed, and the self-participation of banks is set at 20%. The terms predetermine a significantly higher risk than under normal business guarantee programs.
- As at 31 December 2020, the BDB has assumed a commitment to commercial banks for a guarantee of BGN 302.3 million and the approved for guaranteeing loans of BGN 157.1 million. The issuance of the guarantees under the programme is expected to be completed in 2021 (deadline at the date of approval of the document is 31.12.2021).

- The total amount of the programme up to BGN 500 million will be negotiated with commercial banks on additional guarantee lines in 2021 (as of the date of approval of the Management report the total amount is expected to be up to BGN 400 million which is on the account of up to BGN 100 million transferred to the programme for supporting individuals).

Under the set parameters, the estimates for the expected developments are:

- Payments by the BDB amount to 30% of the guarantee commitment and the remaining 70% will be repaid by the borrowers;
- The realization of the main part of the payments under the program will continue up to 2 years after the original maturity of the loans (taking into account the time between the beginning of default and payment by the BDB and the extension of the repayment period of persons with partial default);
- The reimbursement of the amounts paid under the guarantees shall amount to 35% of the amounts paid. This estimate shall take into account the recovery costs.
- A discount rate of 1% corresponding to the applicable interest rate on the liabilities of the BDB was used.

In the last quarter of 2020, the Programme was renewed by decision of the Council of Ministers 979/2020 as follows:

- The loans granted now amount to up to BGN 1 million for SMEs and up to BGN 2 million for large enterprises;
- The period for inclusion of loans in the Guaranteed Portfolio has been extended until 30.06.2021 (as at the date of approval of this report, the period has been re-extended until 31.12.2021);
- The deadline for applying for the measure for micro, small and medium-sized enterprises is 23.06.2021 (as at the date of approval of this report, the current deadline is 21.12.2021);
- The loan collateral rate has changed from "up to 20%" to "up to 50%", relative to the amount of funding – (as of the date of approval the collateral rate is 0% for all new loans;
- A reduction of at least 80 basis points in loan interest rates is required;
- The term of the guarantee provided by the BDB has been extended – from 5 to 6 years;
- The guarantee cover will also include investment loans granted by banks;
- The limit of guarantee payments by BDB EAD has been increased from 30% to 50%.

As of 31 December 2020, the total approved limit under the programme for companies was BGN 743,000 thousand, portfolio guarantees at the amount of BGN 302,300 thousand were issued to the commercial banks and 1,282 loans to individuals were confirmed for a total amount of BGN 157,127 thousand.

3.2.7.2 Programme for individuals

The main parameters of the programme and the guaranteed loans are:

- Payments under guarantees are virtually unconditional (for loans admitted to the programme);
- The guarantees are for 100% of the principal amount of the loan;

- The selection of borrowers is based on the criterion “affected by the pandemic” and not on the usual criteria for providing funding to individuals. These are persons on unpaid leave or self-employed persons with reduced income. Borrowers' income is stressed and significantly lower than usual.
- BDB compensates the participating commercial banks with an annual payment of 1.50% on the amount of the guarantee commitment;
- As at 31 December 2020, the BDB has assumed a commitment to commercial banks for guarantees in the amount of BGN 177.2 million, and the commercial banks granted guaranteed loans of BGN 106.4 million. The issuance of the guarantees under the programme is expected to be completed in early 2021 (deadline – By Decision of the Council of Ministers 506/15.07.2021 an extension was approved of the deadline for applying for credit by individuals "until 31.08.2021 or until the guarantee limits for financing under the programme by partner banks are exhausted, whichever occurs earlier");
- The loans have a grace period of up to two years and a term of up to 5 years.

Under the set parameters, the estimates for the expected developments are:

- Payments by the BDB will amount to 40% of the guarantee commitment and the remaining 60% will be paid by the borrowers;
- The realization of the main part of the payments under the program will continue up to 2 years after the original maturity of the loans (taking into account the time between the beginning of default and payment by the BDB and the extension of the repayment period of persons with partial default);
- Refunds on guarantees should amount to 25% of the amounts paid. This estimate shall take into account the recovery costs;
- The payment of 1.5% to commercial banks is an irrevocable commitment of the BDB, which is included in the calculation;
- A discount rate of 1% corresponding to the applicable interest rate on the liabilities of the BDB was used.

As of 31 December 2020, the total approved limit under the programme for individuals is BGN 179,860 thousand, BGN 177,162 thousand portfolio guarantees to commercial banks were issued, approving 25,448 loans to individuals in a total amount of BGN 106,426 thousand.

At the end of 2020 under the two programmes the Bank issued portfolio guarantees in the total amount of BGN 479,462 thousand approving 26,730 loans at the total amount of BGN 263,553 thousand, having set aside provisions worth BGN 120,308 thousand.

As of 30 September 2021, under the two programmes the Bank issued portfolio guarantees in the total amount of BGN 681,081 thousand approving 55,078 loans at the total amount of BGN 590,618 thousand, having set aside provisions worth BGN 176,422 thousand.

3.3 Funding

It is the policy of the BDB to attract mainly long-term resources to finance its credit activity and thus creates a natural balance between the term of the asset and the liability. In 2020, BDB contracted and utilized nearly BGN 150 million from international financial institutions. Funds are fully allocated to loans and used to support Bulgarian businesses.

3.4 Events and projects in development

3.4.1 Events and projects in development – BDB

In the future, the Bank will continue to offer working capital financing, capital investment and export financing for small and medium-sized businesses. The Bank offers flexible and market-friendly financial solutions that meet the specifics of the borrower and the funded project.

3.4.1.1 Euromoney Magazine Forum

In January 2020, the BDB took part in the 25th Anniversary Economic Forum of “Euromoney” Magazine. The Forum examined the macroeconomic outlook for Central and Eastern Europe for 2020 and the long-term priorities for financing sustainable economic development in the countries of the region. Particularly, the focus was on the European Commission's Green Deal to finance new generation green companies and eco-innovation. BDB hosted a seminar on investment in Bulgaria, which was held under the title "Invest in Bulgaria – Expand in Europe" and was attended by senior bankers and financiers from a number of European institutions.

The seminar presented the investment environment in the country, the priorities for the development of sustainable financing and the opportunities for future growth and integration in the region.

3.4.1.2 “Three Seas” Initiative

The Three Seas initiative (Black, Adriatic, Baltic) aims to strengthen investment, links and cooperation – politically and financially, between member states in the region. This is a public-private financial instrument aimed at complementing funding from the Structural and Other Funds of the European Union. As early as the end of 2019, the BDB received an invitation from the Ministry of Economy to participate in a meeting of the participating countries in the initiative in order to establish a process of operational interaction at government level with a view to moving towards practical implementation of priority projects in the field of transport, energy and digital infrastructure. By Decision No 613 of 2 September 2020, the Council of Ministers of the Republic of Bulgaria approved the participation of the BDB in the Investment Fund of the “Three Seas” Initiative. In December 2020, Subscription Agreement Relating to Three Seas Initiative Investment Fund S.A. SICAV – RAIF was signed between the BDB and the Fund, by which the BDB formally became a Class A shareholder in the Fund.

3.4.1.3 The „InvestEU” Programme

The InvestEU Programme provides for a single European investment support mechanism for the new programming period 2021-2027. The programme is based on the successful experience of the implementation of the European Fund for Strategic Investments and current EC instruments. The InvestEU Programme will provide a guarantee from the EU budget that will support financial products provided by the implementing partners of the programme. In early December 2020, an Agreement was reached by the co-legislators on the InvestEU Programme and a budget was set. The funds will be allocated to four political "windows" (areas) in which financial products will be developed: (1) sustainable infrastructure; (2) research, innovation and digitisation; (3) SMEs; (4) social investment and skills. Following the approval received by the Commission in September 2019 that the BDB is eligible and can be an InvestEU implementing partner, the BDB started carrying out the Pillar Assessment by an independent auditor. At the end of 2020, the BDB is successfully completing the Pillar Assessment as a mandatory step and condition for the application of financial product(s) under the Programme. In parallel, work is also being done on a financial product to apply for support under the Programme.

3.4.1.4 Pan-European Guarantee Fund

The Pan-European Guarantee Fund was established in the second half of 2020 with the participation of EU Member States on a voluntary basis, including Bulgaria. For the formation of the Budget of the Fund, Member States shall contribute a contribution proportionate to their participation in the capital of the EIB. The products offered are in two directions: 1) guarantees and counter-guarantees for small business, SMEs and healthcare and 2) financing of equity in private funds. Three companies in the BDB Group have expressed an interest in participating in the Pan-European Guarantee Fund. BDB sent a request for participation for a direct guarantee without limit.

3.4.1.5 Connecting Europe Facility

At the end of 2019, the BDB received approval from the Commission for participation as an implementing partner for the Connecting Europe Facility (Transport Blending Facility), under which the projects benefit from a grant from the European Commission and bank financing, in this case from the BDB. In 2020, the administration agreement was signed, as a result of which the BDB is an implementing partner for the facility for Bulgaria.

3.4.2 Events and projects in development – subsidiaries

3.4.2.1 Events and projects in development – NGF

In 2020 National Guarantee Fund EAD (NGF) supported over 800 customers that have received funding at the total amount of BGN 242 million including under COSME+ program realized with the funds under Juncker Plan.

Since starting its activity in 2008 until the end of 2020 National Guarantee Fund EAD has realized 9 guarantee programs, supported over 10,000 companies that have received funding at the total amount of BGN 2.77 billion.

3.4.2.2 Events and projects in development – BDB Microfinancing

In 2020 BDB Microfinancing granted funding to final customers under 191 loan and finance lease contracts in the total amount of BGN 14,143 thousand. Since the start-up of the activity by the end of the fourth quarter of 2020, the company has provided funding to its target groups at the total approved amount of BGN 59,688 thousand under 1,371 loan and lease transactions.

The COVID-19 pandemic has led to prolonged economic and financial uncertainty, which has seriously affected the activities of micro and small enterprises, farmers, self-employed persons, craftsman, etc., who develop or start a business on the territory of the country. To the extent that the activities of the BDB Microfinancing EAD focuses precisely on these categories of users of financial services, in 2020 the company significantly strengthened its social mission, fully complying with the guidelines and recommendations of EBA and BNB. To all customers of the BDB Microfinancing EAD, which meet the conditions of the BNB Moratorium, was given the opportunity to renegotiate the terms of the funding provided by concluding annexes under Mechanism 1 and Mechanism 2 of the Moratorium. In addition, a new product of the company, secured by a guarantee from the EIF, was created in 2020, providing financial support to micro-enterprises affected by the pandemic. As at 31 December 2020, 53 loans have been granted under the new product of BDB Microfinancing EAD at the total amount of BGN 2,248 thousand.

3.4.2.3 Events and projects in development – Capital Investments Fund AD

In 2020, the first transaction on the acquisition of a shareholding by CIF in the capital of local export-oriented SME, specialized in the design and production of furniture for customers in the middle and high segment, was finalized. As of the end of August, the company was successfully transformed into a joint-stock company, with investments in plant and equipment to expand production capacity, digitization of workflows while preserving existing jobs and key clients of the company under the restrictions of the COVID-19 pandemic.

At the end of 2020, a shareholder agreement was signed for an increase the capital of a SME, with a focus on the production and trade of children's footwear. The investment of the total amount of BGN 2,000 thousand is divided into three tranches as the second and third tranche of BGN 500 thousand each are under condition that certain parameters will be achieved and the transaction aims to support the development of the company's commercial network in the country and neighboring countries, as well as the establishment of their own trademark for children's shoes.

Capital Investment Fund AD is a full member of the Bulgarian Private Equity and Venture Capital Association.

3.4.2.4 Events and projects in development – BDB Leasing EAD

In 2020 teams were constituted in all main functional units of BDB Leasing necessary to carry out the main activity of the company.

In the same year BDB Leasing finalized the development and implementation of Ultimate Leasing lease-accounting software of BankSoft OOD, which is the main information system of the company.

During the period the framework of internal company rules and procedures regulating the activity of the Company was improved and completed.

In February 2020, the Company became a member of the Bulgarian Association for Leasing (BAL).

By Protocol No 83 of 14.09.2020 the Management Board of BDB EAD in its capacity of sole owner of the capital took a decision to increase the capital from BGN 2 million to BGN 20 million through issue of new 180,000 shares with par value of BGN 100 each. The capital was fully paid-in on 15 September 2020, and the increase was entered in the Commercial Register on 24 September 2020.

In 2020, 42 leases have been signed at the total amount of BGN 29,403 thousand mainly funding small and medium-sized enterprises in various economic sectors. Leases at the amount of BGN 6,284 signed in 2019 and started in 2020 are included in the company’s active portfolio. As at the end of 2020 BDB Leasing EAD has lease portfolio exceeding BGN 39 million under 48 finance lease agreements at the total funding amount of BGN 44.8 million.

3.4.2.5 Events and projects in development – BDB Factoring EAD

In the second half of 2019 and in the first half of 2020 actions were taken to secure the activities of BDB Factoring EAD – appointment of key employees in the functional units, changes in the management, preparation and adjustment of the software, provision of conditions and structuring of the activity and provision with internal normative framework, policies, rules and procedures, moving the company to premises rented and equipped for carrying out its activity, negotiating funding at the amount of almost BGN 15 million by the BDB and subsequently renegotiating it up to BGN 35 million.

The company signs its first factoring agreements at the end of the second quarter of 2020 and for the six months until the end of the year forms a portfolio of BGN 12.5 million under 13 signed agreements with a total approved limit of BGN 26 million providing over BGN 23 million working capital financing and supporting over 30 small and medium-sized enterprises in their needs as a result of interfirm indebtedness.

3.5 Programmes and activities

3.5.1 BDB – programmes of national significance

3.5.1.1 National Program for Energy Efficiency of Multi-Family Residential Buildings

In 2020 Bulgarian Development Bank EAD continued to provide financing under the National Program for Energy Efficiency of Multi-Family Residential Buildings (NPEEMFRB) approved by Decree No 18 of 2 February 2015 of the Council of Ministers of the Republic of Bulgaria (the Programme). The Programme targets the renovation of multi-family residential buildings with a main objective to secure better living conditions for the residents, heat comfort and higher quality of living environment. The implementation of energy efficiency measures in multi-family residential buildings will contribute to higher level of energy efficiency and decrease energy costs, improving the exploitation features for extending the life cycle of the buildings and providing conditions of living in line with the sustainable development criteria. The Programme has significant environmental effect – according to an expert evaluation as a result of the Programme, the reduction of carbon dioxide emissions is estimated at 319,000 tCO2/year and the energy saving is 726,000,000 kWh/year. The economic effect consists of giving more opportunities to business for Economic activity - designers, construction industry, companies for technical audits, companies for energy efficiency audits, materials' producers, etc., as well as participation in the implementation of the Programme of small and medium-sized companies from all over the country. The Programme achieves also social effects by improving the living conditions in the buildings, decreasing costs, providing additional employment, establishing traditions in the management of multi-family residential buildings and increasing public awareness of the ways for energy efficiency enhancement. The programme activities cover the entire territory of the Republic of Bulgaria, within 265 municipalities. The financial resource set aside by the State budget for the Programme amounted to BGN 2 billion.

3.5.1.2 Anti-COVID programmes

In 2020 the BDB was assigned with the management of the guarantee programmes in the total amount of BGN 700 million to overcome the effects of the COVID-19 pandemic. For this purpose two programmes were implemented – for individuals and for companies affected by the pandemic.

Programme №1: Interest-free loan guarantee programme to protect people deprived of the opportunity to work due to the COVID-19 pandemic, with a budget of BGN 300 million.

As of 31 December 2020, the total approved limit under the programme is BGN 179,860 thousand, portfolio guarantees amounting to BGN 177,162 thousand were issued to commercial banks and 25,448 loans were approved for individuals in the total amount of BGN 106,426 thousand.

Programme №2: Portfolio Guarantee Programme to support the liquidity of enterprises affected by the emergency state and the COVID-19 epidemic

At the end of December 2020, the total approved limit under the programme is BGN 743,000 thousand, portfolio guarantees with a limit of BGN 302,300 thousand were issued and 1,282 loans were approved in the total amount of BGN 157,127 thousand.

The two programmes are described in detail in section 3.2.6.

3.5.2 Projects financed by the Group and activities of significance in 2020

3.5.2.1 BDB – projects

A micro enterprise, which has won a number of international awards over the years for start-up business and innovation. The company owns a product and all patents for it – an inflatable snowshoe, which is characterized by being lightweight, compact and extremely adaptable. It can be used for all kinds of winter sports and activities – skiing, snowboarding, climbing, paragliding and snow-kiting. In addition, due to the quality and durability of the product, snowshoes can also be used by mountain rescue and emergency services for a number of expeditions and approved by NATO for use in the army.

The company is also developing a prototype of an innovative product without precedent on the world market based on the technology of inflatable snowshoes – an inflatable stretcher-sled. The product will find its market realization among the different types of rescue services, army, emergency medical care, civil protection, as well as all other governmental, public and private organizations providing medical services to the population, disaster rescue, accidents and safe transportation of victims to medical institutions. A number of the company's partners, such as the armies of different countries, rescue services and civil protection, are already interested in the product as a substitute for conventional stretchers, but combining better qualities such as compactness, ease, better safety of the injured person, better suitability for use in different conditions and higher strength and durability of large in intensity and different loads. In practice, snowshoes and stretchers are innovative products that have no competition.

Investment project funded under contract with the SFA in the process of successful implementation. The project is under sub-measure 4.2 "Investments in processing/marketing of agricultural products" of measure 4 "Investments in tangible assets" of the Rural Development Programme for the period 2014-2020.

The objective of the investment is **expansion and modernization of production activity**. For this purpose, a refrigeration base for storage of dairy products with a workshop for cutting dairy products and technological modernization of the production facilities of an existing enterprise were carried out. The purpose is to modernize production, introduce new processes and technologies, improve product quality, improve the energy efficiency of the enterprise and provide additional employment.

Company with scope of activity trade in medical devices, equipment, facilities and materials used in the field of dermatology, physiotherapy and cosmetics. Finishing repair work of real estate and equipment of the company with modern equipment has been carried out with the allocated funding. The objective is to build **high-tech medical – beauty center**. The Company also organizes exhibitions and training of specialists for use and application of different medical devices. An increase in the number of participants in the training activity in the field of cosmetic services is expected with the realization of the investment and increase in the working base of the beauty salon. The company has concluded a contract with a leading manufacturer of Kriosauna Space Cabin for distribution in Bulgaria.

3.5.2.2 National Guarantee Fund –projects

To implement the main goals in 2020, the NGF has issued guarantees for BGN 102 million on loans in the amount of BGN 243 million. The small and medium-sized enterprises that have received support are 807.

In the past year 2020, the NGF managed to develop a guarantee scheme, allowing counter guarantee under the COSME+ programme of the European Investment Fund /EIF/ and the NGF guarantee scheme. Guarantees amounting to BGN 90 million were issued and the total amount of the issued guarantees on both instruments was BGN 145 million.

The successful implementation of the joint guarantee scheme with the Ministry of Agriculture, Food and Forestry continued and in 2020 loans were guaranteed in the amount of BGN 23 million. The total number under the guarantee programme is 302 guarantees on loans amounting to BGN 205 million.

3.5.2.3 BDB Microfinancing – projects

The subsidiary Microfinancing implemented several successful projects during the year, amongst which:

- A dental clinic was opened in Bourgas with financing from BDB Microfinancing, which provides a full range of high-quality services at affordable prices. The purchased specialized equipment – modern 3D panoramic X-ray (in the city of Bourgas and in the region there is no other dental medical center which has such equipment) and microscope;
- BDB Microfinancing finances a micro enterprise which produces certified bio products (strawberries, goji berry, blueberries) in Northwest Bulgaria;
- Funding is provided to a company which has initiated a new type of activity – with four restored buses Omnia components, which will be purchased from Spain the following services will be provide in Sofia:
  - The first bus will offer soups prepared according to recipes by chef Shishkov;
  - The second bus will offer French coffee and croissants;
  - The third bus will provide screenings of French films from the French Cultural Center which will be free of charge.

3.5.2.4 Capital Investments Fund – projects

The Fund also participates in the initiative of the Bulgarian Stock Exchange “beamUp lab”, under the auspices of the Ministry of Finance, which aims to distinguish promising and innovative Bulgarian companies with sustainable business models, as well as to raise their awareness of funding opportunities.

3.5.2.5 BDB Leasing – activities

BDB Leasing EAD specializes in providing finance lease of production machinery and equipment, lifting equipment, vehicles, construction and agricultural equipment, medical equipment, energy equipment and real estate. In 2020, companies from the sectors “Production”, “Transport” “Infrastructural construction“, “Trade”, “Agriculture and Forestry” and others were supported.

3.5.2.6 BDB Factoring – activities

During the first year of its activity the company focused on agricultural business which experienced difficulties due to the long terms of deferred payments. Factoring is a new financial instrument for the sector through which BDB Factoring proves that it could effectively support various businesses in the delivery chain – from food producers for consumption, through traders of agricultural products to agricultural producers.
Driven by the increasing terms of deferred payments between the public-legal organizations and Bulgarian companies, the company created "Programme for financing of receivables from public-legal organisations". It started with the first signed contract in October 2020 in the amount of BGN 4,900,000 with a company working with the municipalities of Sitovo, Simitli, Pernik, Kostents, Ihtiman and others.

4 OVERVIEW OF THE ECONOMIC ENVIRONMENT AND BANKING SECTOR IN 2020

4.1 ECONOMIC ENVIRONMENT

In order to limit the spread of COVID-19, Bulgaria introduced a state of emergency on 13 May 2020. As a consequence, separate anti-epidemic measures remained in place. In the autumn months, the increase in the number of new cases led to the introduction of additional measures at the end of October and the strengthening of restrictions in November 2020.

In 2020, the pandemic reversed the growth trajectory and put us into recession - according to preliminary data of the National Statistical Institute (NSI), Bulgaria's gross domestic product (GDP) for 2020 decreased in real terms by 4.2% compared to 2019, and the average value for the EU-27 decreased by 5.9%. The sectors with the most significant decline in value added in 2020 were: culture, sport and other leisure activities (15.5%) and trade, transport and tourism (11.9%). Financial and insurance activities recorded growth of 2.5% and the IT and telecommunications sector – 0.6%. The public sector has proved to be a buffer, compensating somewhat for the contraction of the private sector – the added value in government, including education, healthcare, social activities, etc., has grown by 5.9%.

The final NSI data show that exports in 2020 decreased by 6.3%, or by BGN 3.68 billion to BGN 54.8 billion. For this decline is largely responsible the collapse in oil prices and weaker demand for fuels, which reduces sales of Bulgarian mineral fuels, lubricants and similar abroad by 54%, or to BGN 2.55 billion last year. Imports also fell - by 8.9% for the year to a total of BGN 60.1 billion. The decrease is mainly due to fuel, as well, but also a factor are weaker purchases of cars from abroad (decrease by 20%). Thus, the trade balance remains negative, and from BGN 7.53 billion in 2019 becomes BGN 5.3 billion in 2020. The flow of foreign direct investment (FCI) into Bulgaria for 2020 is positive and stands at EUR 2.3 billion, which is an increase by EUR 633.4 million compared to 2019. Thus, the volume of investments increased by 38.6% on an annual basis, according to the data of the Bulgarian National Bank (BNB).

The anti-epidemic measures have led to an increase in unemployment in 2020. According to the NSI, the unemployment rate increased by 0.9% compared to 2019 and reached 5.1%. However, data from the Employment Agency show that the newly registered unemployed for 2020 are 414,574, which is 36.8% more than the registered unemployed at the labour offices in 2019. The Ministry of Finance's forecast is an unemployment rate of 5.2% at the end of 2021, a fall to 4.6% at the end of 2022 and this level will be maintained in 2023.

Inflation slowed in 2020, with the average annual inflation for the period January - December 2020 compared to the period January - December 2019, according to the NSI, is 1.2%. Last year the most significant growth in prices was observed in the sectors – Food products and soft drinks (5.1%), Education (3.6%) and Miscellaneous Goods and Services (3.1%). The most significant decrease was observed in the transport sector (5.0%). The European Central Bank's (ECB) expectations are an increase in inflation to slightly above the target level of 2% this year, and a fall to 1.7% in 2022.

4.2 The banking sector

Lower economic activity in an environment of restrictive measures marked 2020. The activity of the banking sector is carried out in the context of low and negative interest rates, increased impairments, lower fees and commission revenues, slowing the rate of lending growth in the context of COVID-19 and declining profits. In 2020 the Bulgarian lev was included in the exchange rate mechanism (ERM II) – an important stage on the way of the country's accession to the euro area. With effect from 1 October 2020, Bulgaria, together with the accession to the Single Supervisory Mechanism and the beginning of close cooperation between the BNB and the European Central Bank, has also joined the Single Resolution Mechanism. Five banks identified as significant have switched to direct supervision of the ECB.

As of 31 December 2020, 25 banks operated in Bulgaria, six of which were branches of foreign banks. The total amount of assets of the banking system increased by 8.6% on an annual basis to BGN 124 billion. The five largest banks, which, according to the classification of the Banking Supervision Department of the BNB, fall under the so-called first group of banks accounted for 62.1% of the total assets in the banking system, which is commeasurable with the data as of the end of 2019. The second group of banks show a decrease from 34.7% a year ago to 30.4%, and the third group, which includes branches of foreign banks, remain unchanged – 3.2%.

The profit after taxes of the banking system at the end of December was BGN 814.6 million and showed an annual decrease of BGN 860.4 million (51.4%). The profit dynamics are due to impairment and accrued provisions, changes in credit activity, lower fee and commission revenues, low interest rates, management of operating costs and quality of the loan portfolio, as well as some one-off effects.

In 2020 the banking sector is characterised by a slowdown in the rate of credit growth, an increase in deposits, and a reduction in non-performing loans, against the backdrop of low interest rates and the challenges posed by the impact of the COVID-19 pandemic, the outlook for the economy and the regulatory environment. Deposits attracted by banks continue to rise. At the end of 2020, the total amount of deposits in the banking system reached BGN 93.4 billion, an annual growth of 9.7%, against the background of low deposit rates. Savings growth in 2019 is 9.7% year-on-year.

In 2020, the total amount of loans to the non-governmental sector (non-financial enterprises and households) recorded as balances, according to the BNB's monetary statistics, slows its growth to 4.2% on an annual basis (at 7.4% in 2019) BGN 58.87 billion from BGN 58.52 billion during the prior year.

By the end of 2020, non-performing loans, as a share and in absolute value, continued to decrease compared to 2019. As of 31 December 2020, the volume of non-performing loans (overdue over 90 days; excluding central banks and credit institutions) fell from BGN 3.935 billion to BGN 3.322 billion. The share of non-performing loans on average for the banking system fell from 5.94% to 4.78%, as it was at the end of 2019, according to calculations based on data from the Banking Supervision Department of the BNB. For non-financial corporations, the share of non-performing loans decreased to 5.29%, compared with 6.80% a year earlier.

At the end of the second quarter of 2021, the Common Equity Tier 1 capital ratio (the so-called CET 1 capital ratio) for the entire banking system decreased slightly from 22.10% to 21.96%, as it was at the end of the second quarter of 2020. The liquidity coverage ratio (LCR) increased from 258% to 272.5% as it was at the end of the second quarter of 2020. The share of non-performing loans as at the end of June 2021 remains below the level of 5% (excluding central banks and credit institutions; over 90 days). Although the level of non-performing loans is above the EU average, typical for the banking system in Bulgaria is the higher level of impairment coverage of gross non-performing loans compared to the average level for EU countries.

The data reinforce the assessment of the high sustainability of the Bulgarian banking system, even in the context of a crisis caused by COVID-19. The sector continues to be characterised by a significant capital surplus, above the regulatory requirements for capital adequacy and liquidity coverage ratios, including, compared to the EU and Euro area averages.

4.3 Guarantee programmes

The NGF EAD as an institution, sharing the risk of loans granted to small and medium-sized enterprises in Bulgaria, is directly dependent on state of the banking system and the measures undertaken to mitigate the effects of the COVID-19 pandemic.

The deteriorating as a result of the COVID-19 pandemic macroeconomic environment will directly affect the quality of the assets of the banks, as a further deterioration in credit quality, an increase in the number of borrowers in difficulty and the impairment of loans are likely to occur.

Government support measures, including monetary, fiscal, regulatory and supervisory measures, have had the desired effect of preventing a financial crisis: liquidity pressures on banks and borrowers have been eased, so liquidity problems have not become solvency problems. One of the lessons of the great financial crisis, when non-performing loans accumulated over time and clogged banks' balance sheets, is that it is important to recognize and distinguish between purely temporary financial difficulties caused by the pandemic and the deterioration of loans which have a more lasting economic character. The allocation of appropriate provisions and recognition of losses before the end of the moratoria and fiscal measures will avoid sharp setbacks and pro-cyclical effects that could increase the economic cost of the pandemic.

In this regard, it is important to further strengthen the initiatives taken in 2020, to ensure that banks have established satisfactory risk management practices so as to identify, measure and reduce the impact of credit risk, and that they have operational capacity to manage the expected increase in the number of borrowers in difficulty.

4.4 Leasing sector

The lower economic activity as a result of the effects of the COVID-19 pandemic is reflected in a slower growth of the business of the leasing companies in 2020. Interest in leasing as a form of financing has a direct connection to the economic environment in the country and primarily with the investment intentions of companies and individuals.

As of 31 December 2020, receivables on lease contracts amount to BGN 4.308 billion (growth of 0.37% on annual basis), which represents approximately 3.7% of the GDP of the country according to data of the BNB, of which finance lease receivables amount to BGN 4.087 billion (0.3% growth on annual basis). Operating lease receivables have increased by 1.3% (BGN 2.9 million) up to BGN 0.221 billion for 2020.

In 2020, the volume of receivables on lease contracts with legal entities amounts to BGN 3.381 billion, which is a minimal decrease by BGN 3.3 million (0.1%). The portfolio of receivables on lease contracts with individuals records a growth of 2.7% (BGN 18.4 million) – the total volume in 2020 is BGN 690.6 million.

As of 31 December 2020, the largest share is the share of receivables on lease contracts for vehicles – 41%, followed by trucks and vans – 30% and machines, equipment and industrial machinery – 22%. The remaining 7% is divided between real estate and other assets.

Non-performing receivables in the portfolios of the lease companies have decreased from 3.13% as of 31 December 2019 (BGN 134 million) to 2.6% (BGN 112 million) from the total receivables on lease contracts at the end of 2020.

It is expected that the development of the sector in 2021 and subsequent periods will depend mainly on the growth rate of economic recovery. The development of the sector is directly related to the development of sectors that traditionally use lease financing - transport, construction, agriculture and manufacturing.

5 OVERVIEW OF ACTIVITY AND SELECTED FINANCIAL INFORMATION

5.1 Results from the activity of the BDB Group

5.1.1 Statement of comprehensive income

The Bulgarian Development Bank EAD Group continues to actively pursue its objectives, maintaining high levels of liquidity and capitalization. With the beginning of the COVID-19 pandemic, the Bank was assigned new tasks, mainly to provide funds to Bulgarian enterprises which were affected by the lockdown periods, as well as to individuals with significantly reduced income or no income at all. These measures, the reduced economic activity, the fall in nominal interest rates, as well as the temporary moratorium on the payment of liabilities, agreed and proposed by the members of the Association of banks in Bulgaria and approved by the BNB, also led to significant changes in its operating results as follows:

Statement of comprehensive income for 2020 and 2019 of the BDB Group:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	2020	2019	Annual change
Interest income	81,471	75,273	8.2%
Interest expense	(19,846)	(11,358)	74.7%
Net interest income	61,625	63,915	-3.6%
Net fee and commission income	4,715	5,664	-16.8%
Net income on foreign exchange deals	457	421	8.6%
Net income from financial assets at fair value through other comprehensive income	2,432	3,687	-34.0%
General and administrative expenses, including staff costs and depreciation/amortization expenses	(38,990)	(29,716)	31.2%
Other operating income	2,286	1,935	18.1%
Other operating costs	(900)	(1,552)	-42.0%
Operating loss/ income before impairment and provisions	**31,625**	**44,354**	**-28.7%**
Expenses on impairment and provisions, net	(4,568)	(68)	6,617.6%
Expenses on impairment of financial instruments, net	(258,822)	(30,455)	749.9%
(Loss)/Earnings before taxes	**(231,765)**	**13,967**	**not applicable**
Income from/Income tax expense	277	(2,240)	not applicable
Net (loss)/profit for the year	**(231,488)**	**11,727**	**not applicable**
Actuarial gains/(losses) on defined benefits plans, net of taxes	14	(48)	not applicable
Net change in fair value of equity financial assets at fair value through other comprehensive income	(77,858)	-	not applicable
Net change in fair value of debt financial assets at fair value through other comprehensive income	(2,794)	5,785	not applicable
Total comprehensive income	**(312,126)**	**17,464**	**not applicable**

During the financial year ended 31 December 2020 interest rates remained negative. The prohibition on the payment of dividends, as well as the significant cash reserves in the banking system, pre-determined interest on interbank deposits, as well as interest on repo transactions in amounts close to those determined by the BNB for balances above 105% of the minimum reserve requirements. As a consequence of the significant proceeds for the BDB in 2020 – mainly the increase in capital by a total of BGN 840 million related to measures to overcome the consequences of the COVID-19 pandemic – the BDB managed significant amounts of cash, which led to the deposit of significant amounts of excess reserves in the BNB and accounting for significant negative interest expenses on excess reserve.

Interest income for 2020 amounts to BGN 81,471 thousand (for 2019: BGN 75,273 thousand) or an increase of 8.2% compared to the previous accounting year. The growth is the result of the increased volume of credit receivables in the financing of the corporate business in the direct loan portfolio of the BDB and the increase in the lease portfolio of BDB Leasing.

Interest costs are also rising in 2020 and amount to BGN 19,846 thousand compared to BGN 11,358 thousand in 2019, or an increase of 74.7%. This growth is mainly due to the increased volume of borrowed funds from international financial institutions for the financing of the Group's activities, as well as the significant negative interest paid on the cash at the BNB, or realized on the interbank market, in repo transactions and on the market for treasury bonds.

As a result of the realized interest income and expenses in 2020, a net interest gain was reported for the financial year 2020 which was by 3.6% lower in comparison with 2019, amounting to BGN 61,625 thousand (for 2019: BGN 63,915 thousand).

Net income from fees and commissions amounted to BGN 4,715 thousand compared to BGN 5,664 thousand reported in the calendar year 2019, representing a decrease of 16.8%.

Net profit on financial assets recorded at fair value through other comprehensive income for 2020 decreased year-on-year to BGN 2,432 thousand, compared to the reported amount of BGN 3,687 thousand for the financial year 2019.

For the financial year 2020 the general and administrative expenses, staff costs and depreciation/amortization expenses amount to BGN 38,990 thousand and are higher by 31.2% compared to the expenses in 2019 (2019: BGN 29,716 thousand).

As of 31 December 2020, the consolidated financial result of the Group after taxes is a loss amounting to BGN 231,488 thousand compared to the profit of BGN 11,727 thousand in the previous reporting year. The decrease in the reported financial result is due to the significantly higher amount of accrued expenses for impairment and provisions in 2020, including accrued provisions amounting to BGN 120,308 thousand on anti- COVID-19 guarantee programmes.

5.1.2 Financial position

As of 31 December 2020, the amount of the assets of the BDB Group amounts to BGN 3,763,918 thousand, representing a growth rate of 20.5% compared to the prior year. The basic items of the statement of financial position are presented in the table on the following page.

The growth is mainly due to the activities of the Bank related to the anti-COVID-19 programmes, the growth of the loan portfolio and the acquisition of a stake in First Investment Bank AD, in the performance of a government mandate.

Statement of financial position as of 31.12.2020 and 31.12.2019 of BDB Group

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	As of 31.12.2020	As of 31.12.2019	Annual change
Assets			
Cash in hand and balances in current account with the Central Bank	496,279	250,643	98.0%
Receivables from banks	478,700	339,716	40.9%
Financial assets at amortised cost – loans and advances to customers	1,829,250	1,650,088	10.9%
Financial assets at amortised cost – receivables from the State Budget	57,824	166,821	(65.3%)
Financial assets at fair value through other comprehensive income – debt instruments	649,573	596,967	8.8%
Financial assets at fair value through other comprehensive income – equity instruments	57,709	3,578	1,512.9%
Financial assets at amortised cost – securities	12,056	12,144	(0.7%)
Property, plant and equipment and intangible assets	66,645	41,484	60.7%
Net investment in finance lease	39,611	9,735	306.9%
Other assets	76,271	52,167	46.2%
Total assets	**3,763,918**	**3,123,343**	**20.5%**
Liabilities			
Borrowings from international institutions	1,238,904	1,211,937	2.2%
Deposits from customers other than credit institutions	980,491	993,370	(1.3%)
Deposits from credit institutions	8,176	7,877	3.8%
Other borrowings	85,009	109,351	(22.3%)
Provisions	127,448	8,215	1,451.4%
Finance and operating lease liabilities	279	448	(37.7%)
Other liabilities	7,771	5,100	52.4%
Total liabilities	**2,448,078**	**2,336,298**	**4.8%**
Equity			
Share capital	1,441,774	601,774	139.6%
Retained earnings/(accumulated loss)	(231,603)	11,727	not applicable
Revaluation reserve on financial assets at fair value through other comprehensive income	(63,958)	16,694	not applicable
Reserves	169,627	156,850	8.1%
Total equity	**1,315,840**	**787,045**	**67.2%**
Total liabilities and equity	**3,763,918**	**3,123,343**	**20.5%**

5.2 Credit activity

5.2.1 Direct lending

In 2020, the financial group continued to actively develop its business, supporting Bulgarian businesses, continuing to maintain a diversification of the industry structure of its loan portfolio.

At the end of 2020, financial assets at amortized cost amounted to BGN 1,899,130 thousand, growing 3.8% y-o-y (as of 31 December 2019: BGN 1,829,053 thousand). Loans and advances contributed most the growth: as of 31 December 2020 they amounted to BGN 1,829,250 thousand (compared to BGN 1,650,088 thousand as of 31 December 2019) growing 10.9 % for the reporting year 2020.

The following sectors and sub-sectors exhibited a greater dynamic in their relative share in the loan portfolio: “Financial services” (growth of 146.0%), “Industry – production and distribution of energy” (growth of 87.5%), “State governance” (increase by 63%), “Trade” (increase by 41.2%) and “Transport” (increase of 10.4%). Decrease in the share is observed for “Industry – other manufacturing“ (decrease by 63.2%), “Agriculture” (decrease of 9.7%), ”Construction“ (decrease by 5.9%) and “Other industries“ (decrease by 23.2%).

The credit activity of BDB Group consists of both direct lending and indirect financing through programmes for funding commercial banks, which use the received funds to provide loans to SMEs and agricultural producers, i.e., the so called on-lending.

5.2.2 National Energy Efficiency Programme (NEEP)

The National Program for Energy Efficiency in Multi-Family Buildings (NPEEMFB) was launched in 2015. The total agreed funding under the signed contracts is BGN 1,961,588 thousand at the end of 2020 (compared to the end of 2019 – BGN 1,950,074 thousand). The Bank concluded targeted funding contracts for a total of 2,022 sites. By the end of 2020, the Ministry of Regional Development and Public works has made payments to BDB EAD for 1,878 buildings of homeowners‘ associations. The utilized amount was BGN 1,925,337 thousand and gross receivables on loans with accumulated interest amounted to BGN 57,975 thousand (as at 31.12.2019: BGN 145,140 thousand). From the beginning of the NPEEMFB to the end of 2020, a total of BGN 1,891,472 thousand were repaid with funds from the state budget, which amount includes a principal repayment of BGN 1,868,561 thousand and interest paid on completed contracts at the amount of BGN 22,911 thousand.

5.2.3 Anti-COVID-19 programmes

By Decision No 257 of 14 April 2020, the Council of Ministers approved the Interest-free loan guarantee programme to protect people deprived of the opportunity to work due to the COVID-19 pandemic, with a budget of BGN 300 million[3], proposed by the BDB. The programme will be secured with the increase of the Bank’s capital according to Decision No 215 of the Council of Ministers from 2020.

[3] According to Decision № 194 /05.03.2021, the Bulgarian Development Bank EAD was entitled to increase by up to BGN 100 million the amount of the interest-free loan guarantee programme for individuals on unpaid leave and self-insured (“The Interest-Free Loan Guarantee Programme to protect people deprived of the opportunity to work due to the COVID-19 pandemic') at the expense of the budget of the Portfolio Guarantee Programme to support the liquidity of companies affected by the emergency situation and the Covid-19 epidemic. Thus, the opportunities for undertaking guarantee commitments under the interest-free loan guarantee programme for individuals on unpaid leave and self-insured were increased to BGN 300 million.

The Interest-free loan guarantee programme aims to support individuals on unpaid leave and self-insured who are temporarily unable to work in an emergency state.

The programme parameters were further amended in order to increase the benefits for individuals affected by the pandemic by Decision 910/10.12.2020 of the Council of Ministers. They have the opportunity to receive interest-free loans of up to BGN 6,900, which are granted at once or in instalments. The maximum repayment period is 5 years, with a minimum of 6 months and a maximum of 24 months grace period. No fees, commissions or charges are payable on the loans.

By Decision No 310 of 7 May 2020, the Council of Ministers approved the Portfolio Guarantee Programme to support the liquidity of enterprises affected by the emergency state and the COVID-19 epidemic proposed by BDB, with a budget of BGN 500 million. The programme will be secured with the increase of the Bank's capital according to Decision No 215 of the Council of Ministers from 2020. The guarantee programme, which is part of the government's anti-crisis measures, has a budget of up to BGN 500 million. It can include enterprises from all sectors, and the measure is expected to benefit mainly companies from the most affected areas – trade, services, transport and logistics, tourism, hospitality and restaurant business, etc.

As of 31 December 2020, the Bank has issued portfolio guarantees under the two programmes in the total amount of BGN 479,462 thousand by allocating provisions amounting to BGN 120,308 thousand.

5.3 Funding from international institutions

Funds attracted from international institutions at the end of 2020 comprise 50.6% in the liability structure and amounted to BGN 1,238,904 thousand compared to BGN 1,211,937 thousand at the end of 2019. The increase of BGN 27 million for 2020 compared to 2019 is result of the utilization of the entire contractual resource of BGN 147 million. (EUR 75,000 thousand) in the first quarter of 2020 under a signed financial agreement with the Industrial and Commercial Bank of China and from agreed repayments on signed loans at the amount of BGN 120 million.

5.4 Capital increase

In 2020, the bank's shareholder's capital was increased from BGN 601,774 thousand at the end of 2019 to BGN 1,441,774 thousand as at 31.12.2020.

In March 2020, changes to the budget of Ministry of Economy for 2020 were approved in view of the need to take urgent measures to address the economic consequences of the spread of COVID-19.

An extraordinary General shareholders meeting was held on 02.04.2020 when a decision was taken to increase the Bank's capital by BGN 700,000 thousand through a cash contribution from the State through the Ministry of Economy under the terms and conditions of Art. 195 in relation with Art. 194, para. 4 of the State Law, by the issue of 7,000,000 newly registered dematerialized voting shares with nominal/issue value of BGN 100 each.

In June 2020, by decision No 402 of a meeting of the Council of Ministers, a decision was taken the State through the Ministry of Economy to increase its interest in the BDB capital through a cash contribution at the total amount of BGN 140,000 thousand.

By the end of 2020, the amount of the increased registered capital was fully paid in.

5.5 The activity of the Group with regard to microfinancing through BDB Microfinancing EAD

In 2020 BDB Microfinancing has provided financing to end customers under 191 loan and lease contracts in the amount of BGN 14,143 thousand.

As of 31 December 2020, the active loan and lease portfolio of the company amounts to BGN 24,132 thousand presented at amortised cost after impairment and consists of 465 loan and lease transactions. Besides, the company also has receivables from 12 associations/11 business centers and 1 non-profit association/ amounting to BGN 16 thousand after impairment.

The amount of the assets of BDB Microfinancing as of 31 December 2020 amounts to BGN 25,088 thousand.

The reported financial result for 2020 is negative – the loss before taxes amounts to BGN 619 thousand.

The total revenue of the company in 2020 amounts to BGN 1,283 thousand and the interest income amounts to BGN 1,133 thousand, which is 89% of the total revenue.

5.6 The Group's activity with regard to guarantee schemes of the NGF EAD

The main objective of the National Guarantee Fund is to provide guarantees in favour of SMEs, thus facilitating access to financing for enterprises.

5.6.1 Own risk guarantee schemes

The first guarantee scheme of the NGF – **Guarantee scheme 2009-2013**, started in 2009 and loans could be included until February 2013. Under the first guarantee scheme 11 agreements were signed with commercial banks. Under the scheme the NGF issues guarantees on loans to SMEs in the total amount of up to BGN 500 thousand on investment and working capital loans, as well as bank guarantees. The maximum term of the guarantees is up to 10 years and the NGF approves the inclusion of loans in the guarantee portfolio on individual basis. Within the term of inclusion of loans in the guarantee portfolio, NGF has approved guarantees amounting to BGN 168,000 thousand on loans in the amount of BGN 391,000 thousand. Over 2,300 enterprises were supported under the scheme.

As of 31 December 2020, the approved amount of guarantees, included in the portfolios of the partner banks is BGN 3,133 thousand. At book value, the commitment of the Fund on the guaranteed debt as of 31 December 2020 is BGN 1,311 thousand.

From the beginning of October 2015 until the beginning of January 2016, under the **Guarantee scheme 2015-2017** between the NGF EAD and 10 commercial banks were signed guarantee agreements in the total amount of BGN 326,000 thousand. In 2016 the total guarantee limit was increased to BGN 379,000 thousand. Under the scheme the NGF guarantees up to 50% of the amount of the loan, but not more than BGN 1 million. The term of inclusion of the loans in the guarantee portfolio was until 31 March 2017. Until the expiry of the term of inclusion of the loans in the guarantee portfolio 31 March 2017, NGF EAD has guaranteed loans in the total amount of BGN 581,500 thousand, the guarantees are in the amount of BGN 258 080 thousand for 2,024 small and medium-sized enterprises. As of 31 December 2020, the approved limit of the guarantees, included in the portfolio of the partner banks amounts to BGN 19,329 thousand and the amount of the guaranteed debt is BGN 9,662 thousand.

In March and April 2017 between the NGF EAD and 10 commercial banks were concluded guarantee agreements in the total amount of BGN 328,000 thousand. **Guarantee scheme 2017-2018** is a continuation of NGF 2015. Under the scheme are guaranteed up to 50% of the amount of the loan, but not more than BGN 1 million. The term of inclusion of loans in the guarantee portfolio was until 30 September 2018. Since the guarantee scheme started until 31 December 2020 3,000 SMEs have been supported and the issued guarantees amounted to BGN 354,397 thousand. As of 31 December 2020, the approved amount of the guarantees included in the portfolios of the partner banks amounts to BGN 218,943 thousand and the amount of the guaranteed debt is BGN 152,808 thousand.

In the beginning of 2019, NGF started a procedure for selection of partner banks under a new **Guarantee scheme 2019-2020.** Eligible for inclusion are only new loans granted for investments and working capital. Under the scheme the NGF guarantees up to 50% of the amount of the loan but not more than BGN 1.5 million on the level of related parties. The term of inclusion of loans in the guarantee portfolio was until 30 September 2020. The guarantee is on portfolio basis and for amounts over BGN 500 thousand a preliminary written approval by the NGF is required. Under the guarantee scheme there is a maximum limit for payments for each guaranteed portfolio in the amount of up to 25%, and the NGF reserves the right to exclude loans from the guarantee portfolio, which are non-incompliant with the terms of the scheme. The banks pay a guarantee fee on the basis of achieved volumes and the borrowers are exempt from fees under the guarantees of the NGF. At the end of 2020 agreements were signed with 6 banks in a maximum amount in the guarantee portfolio of BGN 244,000 thousand. As of 31 December 2020, the approved amount of the guarantees included in the portfolios of the partner banks amounts to BGN 103,825 thousand and the amount of the guaranteed debt is BGN 96,854 thousand. The number of SMEs which have been supported is 760.

Guarantee scheme under the COSME Programme of the European Commission – in December 2016, an agreement was signed between the European Investment Fund (EIF) and National Guarantee Fund EAD (NGF EAD), by virtue of which another EUR 40 million was ensured for financing Bulgarian small- and medium-sized enterprises under the COSME Programme of the European Commission. The funds have been provided with the support of the European Fund for Strategic Investment (EFSI), on which the Investment Plan for Europe (the "Juncker Plan") is based.
EIF ensures a guarantee line of EUR 20 million, by which NGF will support an EUR 40 million financing to SMEs in Bulgaria that experience difficulties in ensuring collateral required. At 31 December 2020, NGF EAD has signed agreements with five financial institutions. 308 SMEs were supported.

As of 31 December 2020, 415 loans amounting to BGN 75,306 have been guaranteed. The amount of the guaranteed debt according to book value as of 31 December 2020 is BGN 24,038 thousand.

5.6.2 Guarantee schemes for third-party risk – risk free guarantees

The guarantee programme in support of beneficiaries under **Operational Programme Fisheries Sector Development 2007 – 2013 (DFSOP)** is a financial engineering instrument and a process for the issuance of guarantees to supplement the collateral on loans extended by banks to borrowers for the purpose of implementing projects approved under the following DFSOP measures: the programme has been implemented on the basis of a concluded financial agreement with EAFA in 2011 and the NGF EAD carries out the guarantee scheme in the Fisheries sector.

Measure 1.3: Investments on board of fishing vessels and selectivity

Measure 2.1: Manufacturing investments in aquaculture

Measure 2.5: Inland fishing

Measure 2.6: Investments in the processing and marketing of fishery products and aquaculture

Measure 3.3: Investments in reconstruction and modernisation of fishing ports, landing sites and boat shelters.

And also under Priority axis 4: Sustainable Development of Fisheries Areas of projects of some of the beneficiaries under the Priority axes One, Two and Three and all beneficiaries under the Priority axis Four of DFSOP.
With the support of the scheme, projects valued at BGN 46,000 thousand were implemented, of which projects worth BGN 33,000 thousand were under measure 2.1 (79% of the measure's budget); under measure 2.6, projects worth BGN 12,000 thousand (77% of the measure's budget) were supported. Projects for BGN 500 thousand were supported under Measure 4.1. 25 SMEs were supported. The book value of the guaranteed debt as at 31 December 2020 was BGN 448 thousand.

The guarantee programme in support of beneficiaries under **Rural Development Programme 2007 – 2013** (RDP) is a financial engineering instrument approved by the Eighth Amendment to the RDP and a process for the issuance of guarantees to supplement the collateral on loans extended by banks to borrowers for the purpose of implementing projects approved under Measure 121 Modernisation of Agricultural Enterprises, Measure 122 Improvement of the Economic Value of Forests, and Measure 123 Adding Value to Agricultural and Forestry Products of RDP of the Republic of Bulgaria (2007 – 2013).

As of 31 December 2020, applying a maximum amount of the guarantee coverage of 80%, NGF EAD has issued risk-free guarantees for the company and counter-guarantees on loans issued by partner banks for financing approved projects under the Rural Development Programme of the Republic of Bulgaria 2007-2013, amounting to BGN 185,606 thousand. The total amount of loans is BGN 238,112 thousand.

The guarantee programme in support of beneficiaries under **Rural Development Programmes 2007-2013, 2014 – 2020, and enterprises operating in the sectors of Crop and Animal Production - Guarantee scheme - MAF 2016-2018,** is a joint initiative with the MAF, which is implemented using funds released from the Guarantee Scheme under RDP 2007-2013 amounting to BGN 50 million. The issued guarantees by the NGF EAD under the programme are risk free for the company since the claims are paid at the expense of funds provided under the RDP. Under the guarantee scheme, agreements have been signed with 17 commercial banks and BDB Microfinancing EAD (former name MFI JOBS EAD), a company within the BDB Group providing financing up to BGN 300 thousand.

In the first quarter of 2021 by decision of the Consultative committee of the programme the term for inclusion of loans in the guarantee portfolio, as well as the term of validity of the guarantees, has been extended. The deadline for inclusion of loans was changed to 30.06.2023 and the deadline for submitting payment requests by the partner banks is 28.02.2026.

As of 31 December 2020, by applying the maximum amount of the guarantee coverage of 50%, risk free guarantees for the NGF EAD, as well as counter-guarantees on loans, have been issued by partner banks for financing of approved projects under the Rural Development Programme of the Republic of Bulgaria 2014 - 2020 in the amount of BGN 101,602 thousand and the total amount of the loans is BGN 204,972 thousand. As of 31 December 2020, the guaranteed loans are 161 and the total amount is BGN 105,985 thousand. The number of SMEs that have been supported is 214.

The amount of the guaranteed debt at book value as of 31 December 2020 is BGN 47,354 thousand. The number of SMEs that have been supported is 214.

5.6.3 Financial result of NGF EAD

The financial result after taxes of the National Guarantee Fund for 2020 is profit in the amount of BGN 695 thousand.

Based on the results of the application of the risk assessment test on the guarantee portfolio as of the end of 2020, the management of the NGF EAD adopted that the coverage with the expected credit losses of the portfolio should be increased from 1.56 % for 2019 to 1.58 % for 2020, in relation to the commitment assumed by the NGF EAD. On the basis of the risk assessment on the guarantee portfolio, the allocated provisions ensure adequate coverage of the expected future losses.

The operating income of the Fund in 2020 amounts to BGN 4,887 thousand (11% decrease compared to 2019, taking into consideration the uncertainties regarding the spread of Covid-19 pandemic), and is the result of two main sources:

- Interest income from the invested capital of the Fund in deposits and government securities in the amount of BGN 1,622 thousand;
- Income from commissions on issued guarantees amounting to BGN 3,244 thousand.

The main costs incurred by the Fund for its activity in 2020 are administrative expenses and depreciation/amortization expenses amounting to BGN 1,589 thousand.

During the period, impairment of BGN 3,359 thousand on financial assets was reported. Expected credit losses on guarantee portfolios amounting to BGN 833 thousand were reintegrated. Impairment expenses increased by 66.9% y-o-y, affected by the impact of the Covid-19 crisis on risk parameters.

5.7 The Group’s activity through BDB Leasing EAD

The main objective of BDB Leasing EAD in 2020 was to increase its portfolio by providing financing in the form of finance lease of production equipment, construction equipment, vehicles and others to companies from various sectors of the economy.

As of 31 December 2020, the assets of the company amount to BGN 46,387 thousand. The largest share is for the receivables under finance lease, the net value of which after impairment is BGN 39,375 thousand, and there is an increase in the amount of BGN 30,339 thousand compared to 2019.

At the end of the period forty-eight contracts have been concluded for finance lease in the total amount of BGN 44,781 thousand. All contracts are concluded with a floating interest rate 3-month EURIBOR and margin.

BDB Leasing utilizes a revolving credit line amounting to BGN 50 million from the Bulgarian Development Bank EAD for financing its core activities with initial amount of BGN 20 million with repayment deadline 30.10.2030. On 02.07.2020 an annex was signed for a new /additional/ amount of BGN 30 million, thus the total amount of the loan from BDB was increased to BGN 50 million.

The liability amounts to BGN 27,338 thousand and includes BGN 25,428 thousand utilized portion under the loan contract from BDB (2019: BGN 11,855 thousand), BGN 70 thousand liabilities under lease contracts, BGN 27 thousand provisions for off-balance sheet commitments and BGN 1,529 thousand received initial payments on signed lease contracts, and BGN 284 thousand have been reported in other liabilities.

The total reported revenue in 2020 amounts to BGN 852 thousand and the main share of the revenue is interest income on lease contracts which is BGN 775 thousand (2019: BGN 33 thousand). The total reported expenses amount to BGN 1,632 thousand.

The net financial result for the period ending 31 December 2020 is a loss in the amount of BGN 780 thousand (2019 – negative financial result amounting to BGN 171 thousand), which is by 22% less than the loss for the period according to the planned budget.

5.8 The Group's activity through BDB Factoring EAD

The assets of the Company as of 31 December 2020 amount to BGN 13,597 thousand. As of 31 December 2020, the Company reported revenue of BGN 356 thousand, representing fees for examining factoring requests from potential clients and management fees. Expenses were reported at BGN 938 thousand, representing fees and commissions expenses in connection with servicing borrowed funds, costs for hired services, costs of remuneration and social security, costs for rent and depreciation/amortization expenses.

The financial result before taxes was a loss of BGN 582 thousand, due to the fact that the volume of the portfolio is still insufficient to provide enough income to cover the operational costs of the Company. The expectations for the portfolio to reach a level at which the revenue of the Company will be sufficient to cover the operational costs, within two years after the company's activities have started.

5.9 The Group's activity through Capital Investments Fund AD

In 2020, the CIF made its first two investments in minority stakes in Bulgarian companies – a manufacturer of high-end office equipment and furniture and a manufacturer of children's shoes. The total amount of the investment is BGN 3,650 thousand.

In the reporting period the Company has recognized revenue in accordance with the Accountancy Act and its applicable accounting standards in the amount of BGN 103 thousand, arising from fees paid on requests submitted for consideration of proposals from enterprises seeking investment by the Fund.

During the reporting period the Company has recognized total expenses in the amount of BGN 398 thousand, arising from fees paid for consultancy, accounting and legal services, including staff costs.

The result for 2020 is a loss of BGN 295 thousand.

6 STRATEGY FOR THE GROUP'S DEVELOPMENT

BDB – together with the Group companies – is a key instrument and a channel for conducting government economic policies, including in specifically targeted areas, regions, industries and social groups. The Bank and the companies actively collaborate with all other state structures in order to ensure maximum impact of the public funds targeted on support of the economic development. The focus of the activity is pre-export, export and bridge financing.

The activities of BDB Group are focused on establishing a viable and sustainable financial market for SMEs through the basic instruments of the Group – financing of projects and providing guarantees on a wide range of loans for small and medium-sized businesses or transferring liquid funds to market segments and beneficiaries in fulfilment of government mandates.

BDB and its subsidiaries operate in full transparency and apply the best banking and management practices. A core objective of the Bank is to reach the sectors of the economy and borrowers experiencing difficulties in accessing and obtaining financing, by providing financial solutions and products to overcome market imperfections.

In pursuing its mission, BDB – jointly with Group companies – supports government efforts for acceleration of economic growth in the country by means of providing expertise and performing activities in all areas of economic policies, facilitating the absorption of the EU structural funds, enhancing the export potential of the country, financing public and public-private projects or partnerships of strategic national or regional importance, incl. infrastructural projects, etc.

The spread of the Covid-19 pandemic stagnated the business and had a strong negative effect on the global economy. To address the negative effects and business expectations of early March 2020, the government has taken measures that bring financial resources directly into the economy.

BDB took over the implementation of two government mandates after its capital was increased by BGN 700 million: a special mandate for guarantee programmes with a budget of BGN 200 million and an anti-crisis programme with a budget of BGN 500 million for guarantees portfolios for business loans. The programmes are implemented with the participation of commercial banks, which grant 6-year loans and loans without fees, commissions or penalties.

The main principle underlying the Group's activity is not to allow distortion of competition and displacement of the traditional commercial banks from the market. By compensating any existing market shortages in financing certain segments and clients, BDB and its subsidiaries contribute to adjusting their risk profile and further facilitate the increase of bank mediation and growth in credit volumes in the economy.

<u>The strategic goals of BDB Group are:</u>

- To facilitate the economic growth by supporting regions and sectors of the economy with established market shortcomings and potential for growth;
- To help SMEs quickly overcome the crisis by balancing between different sectoral priorities and national economic priorities and programmes endorsed by the government;
- To stimulate the economic activity of investors for the modernization of the capital stock and boosting the competitiveness of the economy;
- To facilitate the economic growth through financing, including syndicated, of sizable, strategic and infrastructural projects and investments;
- To support the development of competitive manufacturing initiatives and sectors of the economy of proven potential;

- To facilitate, jointly with other institutions in the country, the access to financing of innovative and newly established companies (start-ups);
- To facilitate and support the direction of capital flows to the Bulgarian economy.

In planning and carrying out its operational objectives, BDB Group will maintain the two approaches to support SMEs in the country – through direct lending and through indirect programmes through commercial banks. The Group follows the principles of prudent risk assessment and adequate management of these risks.

With regard to direct lending, the Group will further develop focused product lines related to SME support. To fulfil the objectives, priorities will be pre-export, export and bridge financing. Traditionally, the Group will continue to provide financing for small and medium-sized businesses with a longer loan period and relieved legal requirements for loan collateral.

The Group considers that, in a context of high liquidity in the banking sector, the absorbing of part of the risk, namely additional risk that discourages commercial banks from financing, would be a key factor in the success of indirect programmes.

BDB, together with the Group's companies, will interact with the operational programme management bodies in Bulgaria, identifying existing problems in the financing of specific measures and offering solutions for their removal, including specific forms for their financing. Consultations will be carried out at an accelerated pace, in order to adequately include the BDB Group in the overall model of public resource management, in support of the development of the country's economy.

The Bank considers its participation in it as an essential step in increasing the effectiveness of measures to support the Bulgarian economy.

In 2021 by decision of the Council of Ministers № 349 of 15 April 2021 the new strategy of the Bank was approved "Strategy for the development of the activity of the Bulgarian Development Bank EAD" in the period 2021 - 2023, which outlines the strategic initiatives for a longer period. The document is based on the assessment of the national priorities, the objectives for development of the SMEs sector, on the real possibilities for fulfilling government mandates and targeted programmes, as well as growth in the activity of the Group in conditions of the post-COVID-19 pandemic. In the new programme period, the BDB Group will follow the public and government policy for recovery of the business and economy from the COVID-19 pandemic. The strategic priorities of the Group will be refocused and directed towards to a more rapid recovery of small and medium-sized enterprises and restart of the economy after the Coronavirus crisis.

6.1 Development of BDB in 2021

The strategy and activities of the BDB and the Group in the next year is based on three main pillars:

- Sustainable economic development by reducing the carbon footprint and negative effects on the environment, and increasing the degree of circularity and resource efficiency;
- Digital transformation and technological equipment of the Bulgarian business to increase productivity, efficiency and competitiveness, and to promote the transition to Industry 4.0;
- Expanding export potential through accelerated and sustainable integration into European value and supply chains - supporting connectivity and catalysing investment in modern and smart business infrastructure.

In carrying out its activities, the bank is guided by the principles of transparency, neutrality, profitability, efficiency, market compatibility and good banking practice.

The Bank intends to diversify the sources of funding and the main focus and strategic investments will be:

- Preparation and implementation of the financial instruments of ESIF - InvestEU; Pan-European Guarantee Fund; COSME+; EaSI.
- Funding Bulgarian companies that have approved projects under the Connecting Europe Facility.
- Participation in the investment fund initiative “Three seas”.
- Facilitating access of SMEs by creating a digital portal and development of consulting and educational activities for start-ups.
- Support for the emerging green and circular economy.
- Development of road infrastructure and modern smart infrastructure for transport, IT and energy efficiency.

In the context of the Covid-19 pandemic, BDB as the only state bank that has implemented a number of initiatives to support companies and citizens for whom the epidemiological situation has negatively affected the ability to carry out their activities, work, etc. The Bank will continue to be a key instrument for realization of the government policy in the post-crisis recovery phase.

6.2 Development of the NGF in 2021

As part of the BDB Group, the NGF is an instrument and channel for conducting state policies in the economy, incl. in target areas, regions, industries and social groups. The company operates in the conditions of transparency and applies the best practices in the management of its activity. The main task of the Fund is to support sectors of the economy in which market imperfections exist and experience difficult access to finance, and to take measures to facilitate access to such funding.

However facilitating access of SMEs to bank financing does not exhaust the main priorities of the NGF EAD and the BDB Group: they also include assisting the government in the measures for accelerating economic growth and through its lending and its guarantee activity the BDB Group supports the export potential and competitiveness of the businesses by compensating an existing market shortage of funding of specific segments, thus adjusting their risk profile and encouraging commercial banks to develop their exposure to them. The BDB Group implements these tasks by ”supplementing“ the market and at the same time it does not allow “displacing” commercial banks and does not aim at maximizing the profit.

The main tasks of the Fund in 2021 are:

- Continuation of active work on the implementation in practice of the guarantee programmes in support of the micro, small and medium-sized enterprises in the Republic of Bulgaria.
- Effective realization of guarantee programmes in support of enterprises in sector Agriculture, forestry and fisheries through guarantee schemes under the Rural Development Programme in the Republic of Bulgaria and Operational Programme Fisheries Sector Development 2007 –

2013, 2014 – 2020 and the Rural Development Programme 2007-2013, 2014 – 2020 and enterprises from the crop and livestock sector.
- Organizational and technical construction of the structure of the NGF in the context of the new commitments.

In order to achieve its goals and objectives the NGF EAD will work actively with partner banks on guarantee agreements, national and European bodies and institutions directly involved in the implementation of financial engineering schemes, will seek to attract new partners and the cooperation of associations of the small and medium-sized businesses at the national and regional level.

6.3 Development of BDB Microfinancing in 2021

The management of BDB Microfinancing is committed to the future sustainable development of the activity and growth of the assets of the company.

6.4 Development of the CIF in 2021

In line with the investment policy of CIF, a key priority in the company's activities in 2021 is to provide growth capital to support increased competitiveness and innovation capacity of SMEs with identified potential to create high added value. The aim of the management of the fund is to contribute to the development of the ecosystem of equity investments in Bulgaria.

In the beginning of 2021, the Fund has concluded two more transactions with innovative Bulgarian SMEs at the total amount of BGN 8,456 thousand: an engineering and production company, offering complete sound insulation and acoustic solutions and a producer of microprocessor electronic systems for autonomous electricity; both companies seek to expand their portfolio of products and strengthening their market position on international markets.

6.5 Development of BDB Leasing in 2021

The main efforts of the company in 2021 will be directed towards:

- Increasing the existing leasing portfolio using a conservative approach to risk management in approving new transactions, financing of companies with good capital structure and creditworthiness. The expectations for growth of the portfolio as of the end of 2021 are for an amount up to BGN 80 million.
- Implementation of guarantee schemes offered by international and national financial institutions, providing more flexible conditions and access to financing for a wider range of small and medium enterprises, incl. aimed at supporting business as a consequence of the effects of the COVID-19 pandemic. In May 2021, an agreement was signed with the European Investment Fund under the Pan-European Guarantee Fund – a business support instrument in response to the effects of the COVID-19 pandemic. Beneficiaries under the guarantee programme are small and medium enterprises that have access to leasing financing on facilitated terms.
- BDB Leasing EAD submitted a request for participation in a programme of the National Guarantee Fund EAD, part of the BDB Group, in relation to the guarantee scheme “Leasing 2021”, intended for leasing companies. This programme is the first specialized programme in Bulgaria for risk sharing intended for lease companies. The aim of the guarantee scheme

is to facilitate the terms for financing micro, small and medium-sized enterprises by issuing additional guarantees supplementing the collateral on leasing transactions.

- Expanding the participation in programmes in support of business as a consequence of the effects of the COVID-19.

6.6 Development of BDB Factoring in 2021

Guided by the strategy set when the Company was established and the principles of work in 2021, BDB Factoring will continue to be focused on creating a well-diversified portfolio of clients with good and low-risk profile and the Company's activity will be focused on supporting the existing clients for the BDB Group, as well as establishing new stable client relations and attracting new companies operating on the factoring market.

The Company will continue to make efforts next year for attracting resources in the form of credit and capital instruments from local and international institutions.

After the increase of the share capital BDB Factoring plans to become a full member of the FCI (international factoring association).

As of the date of approval of the financial statements of BDB Factoring a decision has been taken by the governing body and the sole owner of the capital for transforming the Company by its merger with the Parent Bank, which is subject to approval.

Until the planned date of the merger BDB Factoring EAD will continue its activities as a separate legal entity.

7 RISK MANAGEMENT

In managing its risk, BDB Group applies policies and procedures based on the best bank and business practices and appropriate to the nature and complexity of its activity. In the course of the ordinary activity, the Group is exposed to various financial risks, the occurrence of which may lead to losses and to deterioration of the financial stability of the Group. These risks are identified, measured and limited to acceptable levels by means of limits and restrictions that reflect the Group's willingness to take specific risks in order to achieve its strategic objectives. The risk management process is important for the profitability and existence of the companies within the Group. The most significant risks, to which the Financial Group is exposed, are credit, market, liquidity and operational risks.

7.1 Credit risk

The credit risk is the key risk to which BDB Group is exposed, and therefore, its management is a key priority of the Group's activity. The credit risk management takes place in compliance with the BDB Act, and the effective statutory laws and regulations of the Republic of Bulgaria, regulating the credit activity, the established international norms and best banking practices. BDB Group uses internal rating for the evaluation and management of the credit risk (incl. from counterparties) under the exposures. Bodies for monitoring, control and assessment of the quality of the credit portfolio have been created and are functioning at the Group. Procedures and mechanisms have been introduced for ongoing monitoring, recording and management of the credit portfolio, requiring periodic, and if necessary, extraordinary reports on the financial and legal status of each borrower and co-debtors. When new circumstances are established, which may lead to a change to the risk profile of the borrowers, including to increasing the risk of non-collectability of the credit exposure, adequate measures, which are in line with the risk parameters of the debtor, are undertaken. When managing the credit risk, BDB Group follows a system of internal Group limits by economic sectors, by instruments, as well as other credit limitations and thresholds for concentration, and the results from the monitoring of their compliance are reported to the competent bodies. The system of limits is reviewed and updated periodically.

7.2 Market risk

In managing the currency risk, the BDB Group follows the principle of maintaining minimum open FX positions through the observing of established limits. The positions in various currencies, as well as the general FX position are monitored on a daily basis. The FX positions are not formed for speculative purposes, but are the consequence of the currency transactions, occurring in the course of the ordinary bank activity. These FX transactions relate to the current needs of financing the position. In managing its assets and liabilities, due to the specifics of its financing, the Group seeks to maintain these assets and liabilities in EUR or BGN. The open FX position takes into account the terms and possibilities for netting the EUR and BGN positions in accordance with the applicable regulatory framework.

In managing interest rate risk, the Group follows the principle of maintaining a balanced structure of its interest-sensitive assets and liabilities, seeking to maintain consistency between the frequency of change in interest rates on assets and liabilities, as well as a correlation between the applicable reference interest rates on assets and on the liabilities of the BDB Group. A system of limits for the maximum acceptable (quantitative) impact of various shock scenarios on the change in market interest rates on net interest income and the economic value of the Group's capital has been introduced. The internal limit framework mitigates the potential risk on expected future returns and the economic value of capital, within acceptable levels corresponding to the risk tolerance of the BDB Group. The interest rate risk assessment is carried out using a set of techniques including yield-based measurement, measurement of the economic value of capital, analysis of discrepancies, interest rate stress scenarios.

The assumption of risks when transacting on the money and capital markets is managed by a system of limits reflecting the risk profile of the investments. These limits are determined according to parameters of the portfolio, like counterparty, financial instrument, maturity, etc. The system of limits is periodically reviewed, while the compliance with the limits is subject to daily monitoring. The securities portfolio, created by BDB Group in order to invest the available funds, is characterized by a relatively low interest rate risk and comprises relatively liquid government securities and securities issued by reliable institutions, i.e. low price risk. In 2020 the financial Group has not maintained trade portfolio and has not been subject to capital requirements for market risk from commercial activities in accordance with regulatory provisions.

7.3 Liquidity risk

Liquidity risk management and control is carried out through day-to-day liquidity monitoring and management, maintaining access to sufficient liquidity to ensure the discrepancies between cash inflows and outflows at maturity intervals, both in a normal banking environment and in different liquidity-aggravated scenarios. The liquidity of BDB Group is managed by strictly monitoring the ratios, indicating the liquidity position by periods. The liquidity risk is measured by applying additional scenarios for the cash flows from operations. In addition, the liquid buffers of the Bank are measured and monitored, as well as the additional sources of financing upon market and idiosyncratic shocks. The main focus of liquidity management is to maintain an adequate level of liquidity buffer in accordance with the established limits and restrictions set according to the risk tolerance of the Group.

7.4 Operational risk

For operational risk management BDB Group applies a systematic approach covering the collection of objective information, timely identification of operational risk, its measurement (qualitative and quantitative), the identification of dependencies with other types of risk and the application of measures to limit its impact on the financial performance and on the capital of the Group. The operational risk is managed by strictly monitoring and registering all operational events occurring in the activity of the various units as a result of the processes within the Group identifying and managing the full range of operational risks. Operational events, which are more frequent, and the ones having great potential or real impact on the financial result, are subject to strict investigation and monitoring. They serve as the basis for the analysis of the operational risk in various scenarios, including operational risk stress tests.

The operational risk is measurable and controllable, while a registry of the operational events is maintained and used as basis for analysis and improvement of the Group's working processes and for minimizing the conditions, which could potentially lead to operational events and loss for the Group. The necessary capital for operational risk is calculated by using the basis indicator approach pursuant to the applicable regulatory framework.

7.5 Recovery Plan (Directive 59/15.05.2014/EC)

BDB has developed a Recovery Plan of the BDB Group. At the end of the reporting year 2020, a version approved by decision of the MB №5/06.02.2020 and decision of SB №4/19.02.2020 is in force. As of the date of preparation of this report its latest update, approved by decision of the MB No. №23/30.03.2021 and decision of the SB No. №11/06.04.2021, was submitted to BNB. The Plan complies with the requirements laid down in the Law on the Recovery and Resolution of Credit Institutions and Investment Firms, EBA Guidelines on the minimum list of qualitative and quantitative recovery plan indicators (EBA-GL-2015-02) and EBA/Op/2015/05 – Technical advice on critical functions and core business lines of the European Banking Authority.

The Recovery Plan addresses the systemically important/critical functions of the BDB Group and sets out the recovery indicators – a system of indicators that Bank observes with the aim of early identification of potential situations which could jeopardize the financial performance of the institution. The prerequisites for the implementation of the recovery measures set out in the Recovery Plan are described. Scenarios and recovery options are considered which, in the event of activation of the Recovery Plan, can be taken, as well as the internal communication and decision-making process. A communication action plan has been elaborated in case of activation of the Recovery Plan.

Furthermore, by recommendation of the BNB, a new section was added to the Plan, which examines the realized and expected effects on the Bank and the Group as a result of the COVID-19 crisis and the need to trigger recovery measures.

The recovery plan is updated once a year and proposed for approval by the MB and SB of BDB. Furthermore, the Recovery Plan is updated in the event of a material change in the legal or organisational structure, activity or financial position of the Bank, or in the financial system in Bulgaria, which may have a significant impact on its effectiveness.

8 CONTROL ENVIRONMENT

Internal control in BDB Group is a continuous process carried out by the management bodies and by persons engaged in internal control functions. Elements of internal control are systems for:

1. management control;
2. risk control;
3. reporting and information; and
4. internal audit.

The first three elements of the internal control system are within the competence and powers of the relevant authorities. The fourth element of internal control is a responsibility of the group's internal audit.

For implementing the effective framework of risk management and internal control, the Group applies the model of the three lines of defence:

The first line of defence is the management control that the leaders of the operational units are exercising. The operational management identifies, evaluates, controls and mitigates risks, ensuring that they operate in accordance with the objectives set out in advance.

The second line of defence is the risk management and compliance function carried out by the Risk Management, Compliance and the Classified Information Departments with regard to the prevention of money laundering and terrorist financing. In their activities, these departments are supported by Management, Analysis and Regulation and Legal Departments. The second line of defence is independent from the first one in terms of organisation and carries out preventive and ongoing control.

The third line of defence is the internal audit function. Internal Audit of the Group Department carries out ex-post control and provides assurance to senior management with respect to the effectiveness of risk management, internal control and corporate governance, as well as the way in which the first and second lines achieve the risk management and control objectives. Internal Audit of the Group Department provides comprehensive assurance from the position of the highest level of independence in the organisation, through a direct subordination to the Supervisory Board.

Management assigns powers and responsibilities for the operating activity in line with a detailed internal normative set of documents, which are in conformity with the current national and European legislations, where in order to guarantee the relationships in accountancy and reporting, and various specialized committees, by hierarchy of authorities, were formed to the MB and SB of BDB as stated in the Corporate Governance Statement, being an integral part of the current financial statements.

The Group has developed an internal set of documents, which includes policy and communications focused on ensuring that all employees understand the goals of the Group, knows how individual actions are interconnected and contribute towards these goals, and who and how is reporting and what is their responsibility.

BDB Group has established an information system, including business processes related to it, providing the necessary quality and control of the financial accountability and communication.

The internal control processes within the BDB Group include the following components:

a) Analysis of control environment – a description of the control environment can be found in items Risk Management, Control Environment, and in the Corporate Governance Statement, Control Environment section;
b) risk assessment process – a description of the control assessment of the risks may be found in Corporate Governance Statement, Risk Management section;
c) information system, including the related business processes relevant to the financial reporting, and communication – description of the information system may be found in the Risk Management, Control Environment and in the Corporate Governance Statement sections;
d) control activities – a description of the control activities may be found in the Risk Management section, part of Corporate Governance Statement, Structures for Risk Management and Committees to the Management Board sections;
e) ongoing monitoring of controls – a description of the ongoing monitoring and control may be found in Corporate Governance Statement, Structure for Risk Management and Committees to the Management Board sections.

The Bank's audit committee monitors the financial reporting processes, the effectiveness of internal control systems and the effectiveness of risk management systems; moreover, it monitors the independent financial audit, reviews the independence of the registered auditor, and makes recommendations for selecting a registered auditor.

9 BANK SUPERVISION AUTHORITIES PURSUANT TO THE BULGARIAN LEGISLATION

In accordance with the requirements of the laws and regulations governing banking activities in the country, BDB should observe restrictions related to certain ratios in its separate and consolidated financial statements. As at 31.12.2020, BDB has complied with all regulatory requirements of the BNB and the Bulgarian legislation.

Effective 1 October 2020, pursuant to ECB Decision (EU) 2020/1015 of 24 June 2020 establishing close cooperation between the European Central Bank and the Bulgarian National Bank (ECB/2020/30), the Bank remained under direct supervision by the BNB in close cooperation with the ECB. The ECB's monitoring includes control on the implementation of the Common Supervisory Standards of the Single Supervisory Mechanism (SSM). The main objectives of the SSM are to ensure the security and stability of the European banking system, to strengthen financial integration and stability, and to ensure consistent supervision. In 2020, the Bulgarian lev joined the Exchange Rate Mechanism II (ERM II) and together with the established close cooperation are a condition for Bulgaria's future membership of the euro area.

As of 1 October 2020, Bulgaria has joined the Single Resolution Mechanism, together with the accession to the Single Supervisory Mechanism and the beginning of close cooperation between the Bulgarian National Bank and the European Central Bank. In this regard, the Single Resolution Board has taken over the monitoring of the resolution planning process with regard to the Bank. European banking supervision, together with the Single Resolution Mechanism, are the two pillars of the EU Banking Union.

On a consolidated basis, the reported capital adequacy of BDB Group as of 31.12.2020 is 32.79% (31.12.2019: 27.75%). The coverage of the assets with capital buffers many times exceed the normatively required levels. The Financial Group continues to maintain a good level of liquidity. As of 31.12.2020, the liquidity coverage ratio (LCR according to the definition of Regulation 575/2013 / EU) of the BDB Group amounts to 552% (compared to 614% at the end of 2019).

10 INTERNATIONAL COOPERATION

BDB continues to develop successful partnerships with leading European and international financial institutions, including through participating in renowned associations. This cooperation enables the Bank to take advantage of the best banking practices, know-how, information on financial products, and also to participate in their development and implementation. BDB has direct access to general and specific information about the latest changes in the legislative framework at European level and its implementation in the area of the development banks and has the opportunity to participate in the process of negotiating these amendments. The membership in international specialized associations allows BDB to take part in seminars and meetings with the European Commission and its Directorates.

- Since 2005 BDB is an active member of the European Association of Public Banks (EAPB). The membership in EAPB contributes for the exchange of experience and best practices between BDB and the European public banks. In May, BDB took part in the General Assembly of the Association by video conference. The work programme was discussed, as well as planned events and priorities for the next 12 months of EAPB.
- Since 2007, BDB is a full member of the Network of European Financial Institutions (NEFI), including representatives from 19 institutions from various European countries. The mission of NEFI is to improve the exchange of information and ideas in order to facilitate SME's access to financing. In 2020, BDB participated in various video conferences with a focus on discussing different opinions, measures taken and programmes against the consequences of COVID-19 and the actions each institution takes. In May, a conference was held on "European Strategic Investment Funds – ESIF Financial Instruments Under the Coronavirus Response Investment Initiative".
- In 2020, BDB continued its participation in the activity of the European Association of Long-term Investors (ELTI). BDB is a co-founder of this organization. BDB took part in the general meeting of the Association, a seminar on "Sustainable investment and industrial policy for successful recovery in Europe", as well as in a number of seminars on recent topics related to anti-crisis measures, the implementation of InvestEU, equity financing, opportunities for cooperation with the Commission in the programming period 2021-2027.
- After being the first President by rotation and took the host's role at the First International Meeting of the China-CEEC Interbank Association of China and the Central and Eastern European countries in July 2018, in 2020 the Association continued its activities. Preparations have also begun for the third meeting of the Board of Directors, which will

discuss the accession of new members to the association and work on a Corporation Action Agenda 2021-2025.

- BDB is a shareholder of the European Investment Fund (EIF) and regularly participates in the discussions of the Group of Financial Institutions – shareholders, where the guidelines for development of the activities and policy of EIF are discussed. BDB regularity votes on various topics – the admission of new shareholders and other organizational matters. Since the beginning of 2020, BDB has renewed its membership of the Franco-Bulgarian Chamber of Commerce and Industry (FBTIC). The Chamber was established in 2004 and is a non-profit organization that brings together 240 French, Bulgarian and international companies. BDB interacts with FBTIC in the promotion and realization of projects between Bulgarian and French companies in priority sectors such as small and medium-sized business, infrastructure, major projects of national importance, etc. Among the bank's key priorities is the management of an export financing programme in order to promote Bulgaria's foreign trade.

In 2020 BDB has joined the International Network for Small and Medium-sized Enterprises (INSME). THE INSME is under the auspices of the Organisation for Economic Cooperation and Development (OECD). The association includes 61 institutions and organizations from 30 countries. INSME's mission is to bring together internationally professionals and researchers in the field of innovation, technology transfer and entrepreneurship, who conduct policies to support small and medium-sized businesses. The aim of the organisation is to facilitate the exchange of ideas and experience, as well as the dissemination of innovative practices, promoting dialogue between the public and private sectors in the creation of international partnerships. INSME works actively through direct communication and cooperation to achieve common goals. Training opportunities, technical assistance and global capacity-building initiatives are provided. Supporting small and medium-sized enterprises and promoting entrepreneurship are part of the BDB's mission.

11 GOVERNANCE OF THE BDB GROUP

11.1 BANK GOVERNANCE

There were no charges in the main BDB corporate governance principles in 2020.

Bulgarian Development Bank EAD has a two-tier corporate governance structure, which consists of Supervisory Board (SB) and Management Board (MB).

In 2020 and 2021, changes have been made in the Statute of Bulgarian Development Bank EAD, in the composition of the Supervisory Board and the Management Board of the Bank, as follows:

<u>Changes in the Supervisory Board:</u>

By decision of the General Meeting of Shareholders of the Bank on 20 August 2020, Mr. Luchezar Dimitrov Borisov was dismissed as a member of the Supervisory Board, and Mr. Stamen Stamenov Yanev was approved to take his place. The decision was entered into the Commercial Register of 26 August 2020.

By decision of the sole owner of the capital of BDB under the Protocol of 25 June 2021 Valentin Lyubomirov Mihov and Vassil Atanasov Shtonov were elected as members of the Supervisory Board of the Bank. This circumstance was entered in the Commercial Register and the register of non-profit legal entities on 7 July 2021. Mr. Valentin Lyubomirov Mihov was elected as chairman of the Supervisory Board of the Bank.

The decision of the sole owner of the capital of BDB under protocol of 27 May 2021, by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank, is about to be entered into the Commercial Register.

<u>Changes in the Management Board:</u>

By decision of the Supervisory Board as of 6 April 2020, Mr. Jivko Ivanov Todorov was elected as a new member of the BDB's Management Board. Mr. Jivko Todorov was empowered to represent and manage the Bank as Executive Director. The circumstances were entered into the Commercial Register on 14 April 2020.

By decision of the Supervisory Board of the BDB as of 8 April 2020, the authorization of the Executive Director to represent the Bank was withdrawn and a decision was taken to dismiss Mr. Stoyan Todorov Mavrodiev as a member of the Management Board of the Bank. The circumstances were entered into the Commercial Register on 22 April 2020.

By Decision of the Supervisory Board as of 14 April 2020, Mr. Panayot Ivov Filipov was elected as a new member of the Management Board of the BDB. This circumstance was entered into the Commercial Register on 24 April 2020. Mr. Panayot Filipov was empowered to represent and manage the Bank as Executive Director. This circumstance was entered into the Commercial Register on 30 April 2020.

By Decision of the Supervisory Board as of 24 April 2020, the authorization of the Executive Director to represent the Bank was withdrawn, and a decision was taken to dismiss Mr. Rumen Dimitrov Mitrov as a member of the Management Board of the Bank. This circumstance was entered in the Commercial Register on 30 April 2020.

By decision of the Supervisory Board under Protocol No 18 of 30 June 2021, Vladimir Rashkov Gueorguiev, Tsanko Rumenov Arabadzhiev and Krum Georgiev Georgiev were elected as new members of the BDB Management Board. This circumstance was entered into the Commercial Register on 7 July 2021. By decision of the Management Board under Protocol No 44/30.06.2021, Mr. Vladimir Rashkov Gueorguiev and Mr. Tsanko Rumenov Arabadzhiev were empowered to represent and manage the Bank as executive directors. This circumstance was entered into the Commercial Register on 7 July 2021. Mr. Krum Georgiev was elected as chairman of the Management Board.

On 14 July 2021 Nikolay Dimitrov Dimitrov and Panayot Ivov Filipov were deleted from the Commercial Register as members of the Management Board.

<u>Changes in the Statute of BDB:</u>

By decision of the General Meeting of Shareholders, held on 20.08.2020, amendments to the Statute of the Bank related to its management were adopted – the position "Chief Executive Director" was deleted, amendments were made to the functions of the members of the Management Board and executive directors, reflected in the provisions of Art. 54, 57, 59 and 59a of the Statute of the Bank.

The Executive Directors shall organise the implementation of the decisions of the management bodies, shall have equal rights and shall allocate among themselves their duties, and each of them shall be responsible for the respective sector of the Bank's activities. These changes were entered in the Commercial Register on 03.09.2020.

By decision of the Minister of Economy under Protocol of 21 May 2021, amendments were made in the Statute of the Bulgarian Development Bank, most of the changes related to reflecting the change in ownership of the capital of the Bank (sole shareholder company).

The amendments to the Statute, which explicitly state that the priority in the Bank's credit activity, should be indicated as essential for lending to export-oriented small and medium-sized enterprises with high added value. A restriction has been introduced for BDB to form exposures to one client or group of related clients whose total amount exceeds BGN 5 million, and this restriction does not apply to other credit institutions, the Council of Europe Development Bank, the European investment activity, the European Investment Fund, development banks from Member States of the European Union, as well as in the cases under para. 7 (when BDB implements specifically government-mandated programmes). A requirement has been introduced for exposures to a client or group of related clients whose amount exceeds BGN 1 million to be approved by the Management Board by unanimous decision and only after the permission of the Supervisory Board.

By decision of the Minister of Economy under a protocol of 10 June 2021, new amendments were adopted in the Statute of Bulgarian Development Bank EAD, which are related to the number of the management and supervisory bodies of the Bank. According to the changes in the Statute, the Supervisory Board consists of three to seven persons, the Management Board consists of three to seven members.

By decisions of the Minister of Economy under protocol of 1 June 2021 and under protocol of 20 July 2021, new amendments have been adopted in the Statute of Bulgarian Development Bank EAD, under which the limit for exposures of more than BGN 5 million does not apply to the subsidiaries of the Bank. The Statute explicitly specifies that the Bank shall not form new exposures on an individual and consolidated basis to one client or group of related clients whose total amount exceeds the amount of BGN 5 million. It is also specified that the approval of credit transactions and changes to existing contracts is carried out in accordance with the Bank's current rules on credit activity, the Statute and the applicable legislation.

These amendments to the Statute have been approved by the Bulgarian National Bank and have been entered into the Commercial Register and the register of non-profit legal entities under the lot of Bulgarian Development Bank EAD.

As of 31 December 2020, the BDB's management and supervisory boards have the following composition:

11.1.1 Supervisory Board of BDB as of 31 December 2020

Stamen Stamenov Yanev – *Chairman of the SB*

Stamen Yanev is a lawyer, Master of Law graduated Sofia University "St. Kliment Ohridski", specializing in the field of mergers and acquisitions, as well as in the field of investments. His professional path passes through the major international consulting companies, including the Bulgarian divisions of some of the four largest audit firms in the world. Mr Yanev specialized in European and English law at ASSER College Europe in the Netherlands, University of Cambridge, University College London, European University Institute (Italy). Since 2015 he has been executive director of the Bulgarian Investment Agency. Mr Yanev holds the position of Chairman of the Supervisory Boards of BDB since 26 August 2020, while also being Deputy Minister of Economy.

Mitko Emilov Simeonov – *Deputy Chairman of the SB*

Mitko Simeonov has a master's degree in law from the New Bulgarian University and a master's degree in international Economic Relations from the University of National and World Economy. He also holds a postgraduate degree in financial management from the University of National and World Economy. He was Deputy Executive and Executive Director of the Agency for Privatization and Post-Privatization Control.

Velina Ilieva Burska – *Member of the SB*

Velina Burska has a master's degree in economics and Organization of Internal Trade from the University of National and World Economy. From 2002 to 2017 she was the director of the Post-Privatization Control Directorate at the Agency for Privatization and Post-Privatization Control.

11.1.2 Management Board of BDB as of 31 December 2020

Nikolay *Dimitrov* – *Member of the Management Board and Executive Director*

Nikolay Dimitrov holds a Ph.D. in Economics from the University of National and World Economy (UNWE) with specializations "International Economic Relations" and "Finance". Between 2007 and 2015, he completed a number of additional courses and qualifications at the Judge Business School at Cambridge University (UK), the Investment Banking Institute (USA), among others. His banking career started at the end of 2003 and went through Raiffeisen Bank and United Bulgarian Bank. He joined the Bulgarian Development Bank in July 2011, in January 2012 become Head of the Investment Banking and Project Finance Department, and since April 2013 he is Head of the Corporate Banking Division. Alongside, he has been an associated professor at the Department of International Economic Relations at UNWE over the period 2010-2017.

Jivko Ivanov Todorov – *Member of the Management Board and Executive Director since 14 April 2020*

Jivko Todorov holds a master's degree in Accounting and Control from the University of National and World Economy in Sofia, as well as an Executive MBA from Hult International Business School in London. His professional career began in 1997 at ING Bank – Sofia Branch, where until 2012 he held successive positions as operational accountant, financial controller, Chief Financial Officer and Member of the Management Board for Bulgaria. In the period 2012-2014 he was appointed as Chief Financial Officer and Member of the Management Board of Alfa Bank – Bulgaria Branch. From June 2014 to March 2020, he was Chief Financial Officer and Member of the Management Board of First Investment Bank AD where he was responsible for Finance, Accounting, Investor Relations, Treasury and Financial Institutions, Correspondent Relations. Under his leadership, an internal transfer pricing policy and cost allocation model, as well as a model for calculating profitability at the business line level, products and customers, is developed and implemented. In April 2020, Mr. Todorov was elected Executive Director and Member of the Management Board of the Bulgarian Development Bank.

Panayot Ivov Filipov – Member of the Management Board and Executive Director since 30 April 2020

Panayot Filipov graduated from the University of National and World Economy with a master's degree in economics and has a specialization in stock markets at the University of Delaware in Bulgaria. In 1998 he was announced for Broker No 1 on the Bulgarian Stock Exchange with the highest number of trades of the year. He entered the banking sphere in 2001, and until 2008 he held positions in Economic and Investment Bank, DZI Bank, where he was also a member of the Management Board, as well as in Piraeus Bank Bulgaria. In 2012 he took over management functions at Municipal Bank. In 2014, Mr. Panayot Filipov was appointed a member of the Board of Directors of OZK Insurance, and in 2017 he became Executive Director and Member of the Management Board of the Bulgarian Export Insurance Agency (BAEZ). In April 2020, Mr. Filipov was elected Executive Director and Member of the Management Board of the Bulgarian Development Bank EAD.

Bulgarian Development Bank EAD is represented jointly by two executive directors or at least one executive director and procurator. As of 31 December 2020, the Bank does not have a procurator.

Contracts signed with related parties involved in the management and participation of the Bank's MB and SB members in other companies

There are no contracts signed pursuant to Art. 240b of the Commercial Act between the members of the SB and MB or persons related to them, on one hand, and the Bank, on the other, which fall beyond the ordinary course of business, or which deviate significantly from the market conditions.

There are no material contracts of the Bank, which lead to action, are amended, or terminated, due to change in the control of the Bank, when performing a compulsory public procurement procedure. As far as there is a legal restriction regarding the acceptable range of shareholders of BDB, pursuant to the BDBA, no such contracts are expected to be concluded.

BDB does not have practice and has not concluded agreements between the BDB and the management bodies or employees for the payment of compensation upon resignation or dismissal without legal grounds thereof, or upon terminating the legal employment relationships by reasons related to tender offers.

A participation, pursuant to Art.247, Para.2, item 4 of the Commercial Act, of members of the SB and MB in commercial companies as general partners holding more than 25 per cent of the capital of another company, as well as their participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows (as of 31 December 2020):

I. With respect to members of the Supervisory Board (SB) of the Bank (during 2020 and as of 31.12.2020):

Luchezar Dimitrov Borisov - Chairman of the SB of BDB. He has no participations in the capital of commercial companies and as at the end of 2020 he does not participates in the management of any commercial companies. Until 29 July 2020 he participated in the management of the following companies:

- Energy Efficiency and Renewable Sources Fund, UIC: 131330278, member of the MB of the company;
- State Enterprise Management and Administration of Dams, UIC 205756975.

Stamen Stamenov Yanev – Chairman of the SB since 26.08.2020. He has no participations in the capital of commercial companies. At the date of approval of this report he is a member of the Board of State Enterprise Management and Administration of Dams.

Mitko Emilov Simeonov - he has no participations in the capital and management of other companies;

Velina Ilieva Burska - she has no participations in the capital and management of other companies.

II. With respect to members of the Management Board (MB) of the Bank (during 2020 and as of 31.12.2020):

Stoyan Todorov Mavrodiev - Chief Executive Director, Chairman of the MB of BDB until 22 April 2020.

Participation in the management of commercial companies:

- National Guarantee Fund EAD, UIC: 200321435, a subsidiary of the Bank, as Chairman of the Board of Directors until 20 May 2020;
- Capital Investments Fund AD, UIC: 205322014, a subsidiary of the Bank, as Chairman of the Board of Directors and Executive Director until 20 May 2020;
- BDB Leasing EAD, UIC: 205565411, a subsidiary of the Bank, as Chairman of the Board of Directors and Executive Director until 20 May 2020;
- BDB Factoring EAD, UIC 205566082 a subsidiary of the Bank, as Chairman of the Board of Directors and Executive Director until 20 May 2020.

Participation in the share capital of commercial entities:

- Real Estate Ventures EOOD, UIC: 131160908, sole owner.
- Genesisi Advisory Services EOOD, UIC 206148068, sole owner.

Rumen Dimitrov Mitrov - Executive Director, Vice Chairman of the MB of BDB until 30 April 2020.

Participation in the management of commercial companies:

- BDB Microfinancing EAD, UIC: 201390740, a subsidiary of the Bank, as Vice Chairman of the Board of Directors until 20 May 2020;
- Capital Investments Fund AD, UIC: 205322014, a subsidiary of the Bank, as Vice Chairman of the Board of Directors until 20 May 2020;
- BDB Leasing EAD, UIC: 205565411, a subsidiary of the Bank, as Vice Chairman of the Board of Directors until 20 May 2020;
- BDB Factoring EAD, UIC 205566082 a subsidiary of the Bank, as Vice Chairman of the Board of Directors until 20 May 2020.

Participation in the share capital of commercial entities - none.

Nikolay Dimitrov - Executive Director, member of the MB of BDB.

Participation in the management of commercial companies:

- BDB Microfinancing EAD, UIC: 201390740, a subsidiary of the Bank, as Vice Chairman of the Board of Directors until 20 May 2020;
- Capital Investments Fund AD, UIC: 205322014, a subsidiary of the Bank, as a member of the Board of Directors;
- BDB Leasing EAD, UIC: 205565411, a subsidiary of the Bank, as Member of the Board of Directors until 20 May 2020;
- BDB Factoring EAD, UIC 205566082 a subsidiary of the Bank, as Member of the Board of Directors until 3 June 2020.

Participation in the share capital of commercial entities - none.

***Jivko* Ivanov Todorov**– Executive Director, Member of the MB of BDB since 20 May 2020.

Participation in the management of commercial companies:

- BDB Leasing EAD, UIC: 205565411, a subsidiary of the Bank, as Chairman of the Board of Directors since 20 May 2020;
- National Guarantee Fund EAD, UIC: 200321435, a subsidiary of the Bank, as Chairman of the Board of Directors since 20 May 2020;
- First Investment Bank AD, UIC: 831094393, credit institution, as Member of the Board of Directors until 22 April 2020.

Participation in the share capital of commercial entities - none.

Panayot Ivov Filipov – Executive Director, Member of the MB of BDB since 30 April 2020.

Participation in the management of commercial companies:

- BDB Microfinancing EAD, UIC: 201390740, a subsidiary of the Bank, as Chairman of the Board of Directors since 20 May 2020
- BDB Factoring EAD, UIC 205566082 a subsidiary of the Bank, as Chairman of the Board of Directors since 20 May 2020

Participation in the share capital of commercial entities - none.

11.1.3 BDB Supervisory Board at the date of approval of this report

As of the date of approval of this report, the BDB's management and supervisory boards have the following composition:

Valentin Lyubomirov Mihov - Chairman of the SB since 25 June 2021

Valentin Mihov has master's degrees in international Economic Relations from the MGIMO University and Business Administration from INSEAD. He has considerable experience in bank management. From 1999 to 2008 he was a consultant and junior partner at the consulting firm McKinsey and managed projects at the largest banks in Bulgaria, Germany and Russia.

Between 2008 and 2017 he held senior management positions at Commerzbank in Germany, Sberbank Russia, Sberbank Europe in Austria, as well as at the supervisory boards of their subsidiaries in a number of countries in Eastern Europe. From 2018, he advised banks and companies as a consultant or independent member of the Board of Directors.

Vassil Atanasov Shtonov – Vice Chairman of the SB since 25 June 2021

Vassil Shtonov holds a master's degree in Finance from the Massachusetts Institute of Technology in Cambridge. He has extensive experience in banking, telecommunications and energy. He has experience in a U.S. fund for risk investments in small and medium-sized enterprises in Los Angeles, at the McKinsey consulting firm as a junior partner, where he led teams of analysis and management of commercial banks, and at the Bear Stearns Investment Bank in New York. He was Chief Strategy and Marketing Officer of the cable company Blizoo. Caretaker Minister for Economy and Energy in 2014.

***Stamen Stamenov Yanev* – Member of the SB since 26 August 2020**

Stamen Yanev holds a master's degree in Law from Sofia University "St. Kliment Ohridski". He specialized in European and English law at ASSER College Europe in the Netherlands, University of Cambridge, University College London, European University Institute (Italy). Yanev is a lawyer specialized in the field of mergers and acquisitions, as well as in the field of investments. His professional path passes through the major international consulting companies, including the Bulgarian divisions of some of the four largest audit firms in the world. Since 2015 he has been Executive Director of the Bulgarian Investment Agency. Deputy Minister of Economy from 2020 to 2021.

Mitko Emilov Simeonov - Member of the SB since 27 November 2017*

Mitko Simeonov has a master's degree in law from the New Bulgarian University and a master's degree in international Economic Relations from the University of National and World Economy. He also holds a postgraduate degree in financial management from the University of National and World Economy. He was Deputy Executive and Executive Director of the Agency for Privatization and Post-Privatization Control.

Velina Ilieva Burska – Member of the SB since 27 November 2017*

Velina Burska has a master's degree in economics and Organization of Internal Trade from the University of National and World Economy. From 2002 to 2017 she was the director of the Post-Privatization Control Directorate at the Agency for Privatization and Post-Privatization Control.

*The decision of the sole owner of the capital of BDB under Protocol of 27.05.2021, by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank is expected to be entered into the Commercial Register.

11.1.4 BDB Management Board at the date of approval of this report

Krum Georgiev Georgiev – Chairman of the MB since 30 June 2021

Krum Georgiev has a bachelor's degree in business management and a master's degree in Finance from the University of National and World Economy. His professional career includes 11 years of experience in banking and accumulated solid knowledge in the field of financial analysis and corporate governance. He was head of Project Finance Department at UBB, responsible for increasing the credit portfolio, monitoring the quality of the loan portfolio and structuring new transactions. He has also successfully development as an asset manager in the RES sector.

Vladimir Rashkov Gueorguiev – Member of the MB and Executive Director since 30 June 2021

Vladimir Gueorguiev has more than 11 years of experience in the banking system, he has gone through all levels of development, with years of management experience as head of directorates and managements in several major commercial banks, as well as a member of the Management Board and Executive Director of banking institutions. He has proven experience in the field of international banking activity and liquidity, international credit and correspondent relations, as well as in the field of rescuing banks with poor credit portfolios, dealer operations, documentary operations, liquidity, corporate finance and collection of problem loans. He participated in the consolidation teams of two major Bulgarian banks as responsible for the reunification in the field of international credit and correspondent relations and liquidity. Vladimir Gueorguiev specialized in finance and banking in Germany, Austria, Belgium, Luxembourg. He has more than 19 years of experience in the financial management of Bulgarian and foreign investments in different sectors of the economy. He organized Primary Public Offering and Bond Financing through BSE for several corporate structures.

Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director since 30 June 2021

Tsanko Arabadzhiev is a financial manager with 16 years of experience and an established presence in the banking, insurance and private sectors. His professional career began at UBB, where in the period 2005-2013 he underwent various levels of development in the field of retail banking, management of collective investment schemes and lending to small and medium-sized enterprises. In 2013 he joined the insurance company "UNICA", where for 5 years he was Director of Investment Management. His main responsibilities are related to the overall management of the company's cash flows, the preparation and implementation of asset management strategies so as to achieve optimal returns within the investment mandate. In addition, he led various projects related to the introduction of new products, costs and processes optimization, etc. Mr. Arabadzhiev's career continued as Chief Financial Officer of Nord Holding, and since 2019 he is part of the team of Pension Insurance Company Doverie, where he is responsible for the internal control of its investment activities and managed funds. Tsanko Arabadzhiev graduated from the University of International Economic Relations at the University of National and World Economy and holds a master's degree in Finance.

Jivko Ivanov Todorov – Member of the Management Board and Executive Director since 14 April 2020

Jivko Todorov holds a master’s degree in Accounting and Control from the University of National and World Economy, as well as an Executive MBA from Hult International Business School in London.

His professional career began in 1997 at ING Bank – Sofia Branch, where he held successive positions as operational accountant, financial controller, Chief Financial Officer and Member of the Management Board for Bulgaria. In the period 2012-2014 he was Chief Financial Officer and Member of the Management Board of Alfa Bank – Bulgaria Branch. From 2014 to March 2020, he was Chief Financial Officer and Member of the Management Board of First Investment Bank, where he was responsible for the resources Finance, Accounting, Investor Relations, Treasury and Financial Institutions, Correspondent Relations. Under his leadership, an internal transfer pricing policy and cost allocation model, as well as a model for calculating profitability at business line level, products and customers, was developed and implemented.

Bulgarian Development Bank EAD is represented jointly by two executive directors or at least one executive director and procurator. As at the date of approval of this document the Bank does not have a procurator.

Contracts signed with related parties involved in the management and participation of the Bank's MB and SB members in other companies

There are no contracts signed pursuant to Art. 240b of the Commercial Act between the members of the SB and MB or persons related to them, on one hand, and the Bank, on the other, which fall beyond the ordinary course of business, or which deviate significantly from the market conditions.

There are no material contracts of the Bank, which lead to action, are amended, or terminated, due to change in the control of the Bank, when performing a compulsory public procurement procedure. As far as there is a legal restriction regarding the acceptable range of shareholders of BDB, pursuant to the BDBA, no such contracts are expected to be concluded.

BDB does not have practice and has not concluded agreements between the BDB and the management bodies or employees for the payment of compensation upon resignation or dismissal without legal grounds thereof, or upon terminating the legal employment relationships by reasons related to tender offers.

11.1.5 Participation pursuant to Art. 247, para 2, item 4 of the Commercial Act

A participation, pursuant to Art. 247, Para. 2, item 4 of the Commercial Act, of members of the SB and MB in commercial companies as general partners holding more than 25 per cent of the capital of another company, as well as their participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows (as of 31 December 2020):

I. With respect to members of the SB of the Bank (composition as of the date of approval of this report):

Valentin Lyubomirov Mihov, Chairman of the SB of the BDB since 25 June 2021 is a Managing Director of:

- Valor Advisors EOOD, UIC: 204708828 and First Ukrainian International Bank – Member of the Supervisory Board; as well as shareholder in the capital of Action TS OOD, UIC: 030222081, who is not involved in the management of or control on the company. Sole owner of the capital of:

- Valor Advisors EOOD, UIC: 204708828 – sole owner of the capital Valor Advisors EOOD, UIC: 204708828.

Vassil Atanasov Shtonov – Vice Chairman of the SB of BDB since 25.06.2021 is a Managing Director of AMC Directors EOOD, UIC: 205674040 and Re-life Clothing, UIC: 206181417

Stamen Stamenov Yanev – Member of the SB since 26 August 2020. He has no participations in in the capital of commercial companies. At the date of preparation of this report he participates in the management of the following commercial companies:

- State Enterprise "Management and Administration of Dams", UIC: 205756975, Member of the Management Board;
- Invest Bulgaria Agency, UIC: 831910252 – Executive Director;
- BDB Microfinancing EAD, UIC: 201390740 – Member of the Board of Directors until 29 May 2020.

Luchezar Dimitrov Borisov - Chairman of BDB Supervisory Board until 26 August 2020. He has no participations in in the capital of commercial companies and at the end of 2020 he is not involved in the management of commercial companies. Until 29 July 2020 Mr. Borisov participated in the management of the following companies:

- Energy Efficiency and Renewable Sources Fund, UIC: 131330278, member of the MB of the company;
- State Enterprise "Management and Administration of Dams", UIC: 205756975.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

Mitko Emilov Simeonov – no participation in the capital or management of commercial companies.

Velina Ilieva Burska – no participation in the capital or management of commercial companies.

II. With respect to members of the MB of the Bank (composition as of the date of approval of this report:

Tsanko Rumenov Arabadzhiev – Executive Director and Member of the MB of Bulgarian Development Bank

Participation in the management of commercial companies:

- Capital Investments Fund AD, UIC: 205322014, as Member of the Board of Directors;
- BDB Factoring EAD, UIC 205566082, as Member of the Board of Directors.

Krum Georgiev Georgiev – Chairman of the Management Board of Bulgarian Development Bank EAD

Participation in the management of commercial companies:

- BDB Leasing AD, UIC: 205565411 – as Member of the Board of Directors;
- BDB Factoring EAD, UIC 205566082, as Member of the Board of Directors;

Participation in the capital of trade companies or cooperatives – none.

Vladimir Rashkov Gueorguiev – Executive Director and Member of the MB of Bulgarian Development Bank EAD

Participation in the management of commercial companies, including as a procurator: none.

Participation in the capital of trade companies or cooperatives:

- Debtnet EAD, UIC: 200817666 – sole owner of the capital;
- Rosa Organica OOD, UIC: 131389390 – partner;

Jivko Ivanov Todorov – Executive Director and Member of the MB of BDB since 14 April 2020

Participation in the management of commercial companies:

- BDB Leasing EAD, UIC: 205565411, a subsidiary of the Bank, as Chairman of the Board of Directors since 20 May 2020;
- National Guarantee Fund EAD, UIC: 200321435, a subsidiary of the Bank, as Chairman of the Board of Directors since 20 May 2020;
- First Investment Bank AD, UIC: 831094393, credit institution, as Member of the Board of Directors until 22 April 2020.

Participation in the share capital of commercial entities - none.

Note 39 of the consolidated financial statements discloses comprehensive information about the full amount of remuneration, awards and/or benefits to the members of the management and supervisory bodies for the reporting financial year, paid by the Bank and its subsidiaries.

11.2 MANAGEMENT OF THE SUBSIDIARIES

As of 31 December 2020, BDB is the equity owner of the following subsidiaries:
Sole owner of:

- National Guarantee Fund EAD, UIC: 200321435
- BDB Microfinancing EAD, UIC: 201390740;
- BDB Leasing EAD, UIC: 205565411;
- BDB Factoring EAD, UIC: 205566082;
- Trade Center Maritsa EOOD, UIC: 115619162.

Participates jointly with NGF AD in the capital of:

- Capital Investments Fund AD, UIC: 205322014, as the registered capital is allocated as follows (BDB holds 84.62% of the company's capital and NGF holds 15.38%).

Exercises control over:

- Cohoferm OOD – by appointment of a managing director and control over the entity (see Notes 2 – Methods of consolidation, 26 – Assets held for sale and 34 – Other liabilities).

Changes in the bodies are set out in section 2.8. Changes in the management bodies of the subsidiaries in 2020 and 2021

11.2.1 NATIONAL GUARANTEE FUND EAD (NGF)

NGF EAD has a one-tier management system - Board of Directors, consisting of three members. As at 31 December 2020 and at the date of approval of this report the BoD members are:

Board of Directors members as of 31.12.2020:

- **Todor Lyudmilov Todorov** – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- **Jivko Ivanov Todorov** – Chairman of the Board of Directors as of 20.05.2020;
- **Zaharina Damyanova** Todorova – Member of the Board of Directors as of 20.05.2020.

Board of Directors members as of the date of approval of this report:

- **Jivko Ivanov Todorov** – Chairman of the Board of Directors as of 20.05.2020;
- **Todor Lyudmilov Todorov** – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- **Zaharina Damyanova Todorova** – Member of the Board of Directors as of 20.05.2020;
- **Deyan Petrov Kalapchiev** - Member of the Board of Directors.

The company is represented jointly by any two of the members of the board of directors.

The members of the BD of NGF EAD do not hold any shares of the Fund, nor do they have any special rights on the acquisition of such shares.

There are no contracts signed pursuant to Art. 240b of the Companies Act between the members of the BD of NGF EAD or persons related to them, on one hand, and the Company on the other, which fall outside the scope of the company's ordinary activity, or which significantly deviate from market conditions.

The participations, pursuant to Art. 247, Para. 2, item 4 of the Commercial Act, of BD members of NGF in commercial companies as general partners holding more than 25 per cent of the capital of another company, as well as their participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows (as of 31 December 2020).

Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020

Participation in the management of commercial companies:

- Glenridge Capital EOOD, UIC 205578775, managing director;

Participation in the capital of trade companies:

- Glenridge Capital EOOD, UIC 205578775, sole owner;
- Hobo Bulgaria OOD, UIC 205420451, partner - 15%.

Jivko Ivanov Todorov – Chairman of the Board of Directors of NGF since 20 May 2020

Participation in the management of commercial companies:

- Bulgarian Development Bank EAD, Executive Director and Deputy Chairman of the Board of Directors since 14 April 2020;
- National Guarantee Fund EAD, UIC: 200321435, a subsidiary of the Bank, as Chairman of the Board of Directors since 20 May 2020;
- First Investment Bank AD, UIC: 831094393, credit institution, as Member of the Board of Directors until 22 April 2020.

Participation in the share capital of commercial entities - none.

Zaharina Damyanova Todorova – Member of the Board of Directors of NGF as of 20.05.2020

Participation in the management and in the share capital of commercial entities - none.

Deyan Petrov Kalapchiev - Member of the Board of Directors of NGF since 27.09.2021

Participation in the management of commercial companies:

- Capital Alliance EOOD, UIC: 175172627, managing director;
- G&L Properties OOD. UIC: 175172659, representative.

Participation in the share capital of commercial entities:

- Capital Alliance EOOD, UIC: 175172627, sole owner;
- G&L Properties OOD. UIC: 175172659, partner holding 50% of the share capital.

11.2.2 BDB MICROFINANCING EAD (FORMER MICRO FINANCING INSTITUTION JOBS EAD)

BDB Microfinancing has a one-tier management system - Board of Directors, consisting of three to five members. As at 31 December 2020 and at the date of approval of this report the BoD members are

Board of Directors members as of 31.12.2020:

Panayot Ivov Filipov – Chairman of the Board of Directors from 20 May 2020 to 30 August 2021;

Ivana Borisova Tsaneva – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;

Angelina Georgieva Angelova – Member of the Board of Directors from 20 May 2020 to 30 August 2021;

Iliya Radkov Komitov – Member of the Board of Directors since 28 August 2020.

Board of Directors as at the date of approval of this report:

- **Vladimir Rashkov Gueorguiev** – Chairman of the Board of Directors since 23 August 2021;
- **Ivana Borisova Tsaneva** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;
- **Iliya Radkov Komitov** – Member of the Board of Directors since 28 August 2020;
- **Boyan Stefanov Byanov** – Member of the Board of Directors since 30 August 2021.

The Company is represented by either two of the members of the Board of Directors, jointly. The Procurator may represent the Company only jointly with either one of the members of the Board of Directors of the respective company.

There are no contracts signed pursuant to Art. 240b of the Commercial Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art.247, Para.2, item 4 of the Commercial Act, of members of the BD of BDB Microfinancing EAD in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

Vladimir Rashkov Gueorguiev – Chairman of the Board of Directors since 23 August 2021;

Participation in the management of trade companies, including as procurator:

- Bulgarian Development Bank EAD, UIC: 121856059 – Executive Director and Member of the Management Board

Participation in the capital of trade companies or cooperatives:

- Debtnet EAD, UIC: 200817666 – sole owner of the capital;
- Rosa Organica OOD, UIC: 131389390 – partner

Boyan Stefanov Byanov – Member of the Board of Directors since 30 August 2021.

Participation in the capital or management of trade companies – none.

Panayot Ivov Filipov – Chairman of the Board of Directors from 20 May 2020 to 30 August 2021;

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Executive Director and Member of the Management Board since 30 April 2020;
- BDB Factoring EAD, UIC: 205566082, subsidiary of the Bank, Chairman of the Board of Directors since 20 May 2020;

Participation in the capital of trade companies – none.

Ivana Borisova Tsaneva – Executive Director and Vice Chairman of the Board of Directors

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

Angelina Georgieva Angelova – Member of the Board of Directors from 20 May 2020 to 30 August 2021;

Participation in the management of trade companies:

- AFE EOOD, UIC: 204261633, Managing Director.

Participation in the capital of trade companies:

- CODE Broadcasting Group (TRANSTROY AMB) EOOD, UIC: 205276652, sole owner of the capital until 16 April 2021.

Iliya Radkov Komitov – Member of the Board of Directors since 28 August 2020.

Participation in the management of trade companies:

- Brand Boys OOD, UIC: 203557782, Managing Director;
- SENMON, UIC: 202994314, Managing Director;

Participation in the capital of trade companies:

- Brand Boys OOD, UIC: 203557782, partner;
- SENMON EOOD, UIC: 202994314, sole owner of the capital.

11.2.3 CAPITAL INVESTMENTS FUND AD (CIF)

Bulgarian Development Bank EAD holds 84.62% of the capital of Capital Investments Fund AD, UIC: 205322014, and 15.38 % of the Company's capital are owned by the National Guarantee Fund AD.

CIF AD has a one-tier management system - Board of Directors, consisting of three members. As at the end of 2020 and as at the date of approval of this report the Board of Directors consists of the following members.

Board of Directors (as of 31 December 2020):

Nikolay Dimitrov – Chairman of the Board of Directors and Executive Director from 20 May 2020 to 20 August 2021;

Tihomir Gochev Chemshirov – Vice Chairman of the Board of Directors from 20 May 2020 to 14 September 2021;

Tsvetomir Georgiev Tsanov – Member of the Board of Directors since 20 May 2020.

Board of Directors as at the date of approval of this report:

- **Tsanko Rumenov Arabadzhiev** - Chairman of the Board of Directors since 20 August 2021;
- **Stefan Stefanov Tamnev** – Executive Director and Vice Chairman of the Board of Directors since 20 August 2021;
- **Tsvetomir Georgiev Tsanov** - Member of the Board of Directors since 20 May 2020;
- **Krasimir Tanev Atanasov** – Member of the Board of Directors since 20 August 2021.

Since 21 August 2020 the company has an authorized procurator – Angel Penev Hadzhiev.

The company is represented by either two of the members of the Board of Directors and the procurator. The Procurator may represent the Company only jointly with either one of the members of the Board of Directors of CIF.

There are no contracts signed pursuant to Art. 240b of the Commercial Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art.247, Para.2, item 4 of the Commercial Act, of members of the BD of Capital Investments Fund AD in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

Tsanko Rumenov Arabadzhiev - Chairman of the Board of Directors since 20 August 2021;

Participation in the management of trade companies:

- Bulgarian Development Bank EAD – Executive Director and Member of the management Board;
- BDB Factoring EAD, UIC: 205566082 – Member of the Board of Directors.

Participation in the capital of trade companies or cooperatives – none.

Stefan Stefanov Tamnev – Executive Director and Vice Chairman of the Board of Directors since 20 August 2021;

Participation in the management of trade companies: none.

Participation in the capital of trade companies or cooperatives:

- RM FRUIT OOD, UIC 206485936, partner holding a 10% share.

Krasimir Tanev Atanasov – Member of the Board of Directors since 20 August 2021

Participation in the management of trade companies:

- Omega Trading Partners OOD, UIC: 175048191 – Managing Director;
- Primus EOOD, UIC: 175080997 – Managing Director;

Participation in the capital of trade companies or cooperatives:

- Omega Trading Partners OOD, UIC: 175048191 – partner holding a 50% share;
- Primus EOOD, UIC: 175080997 – sole owner of the capital.

Nikolay Dimitrov Dimitrov – Chairman of the Board of Directors and Executive Director from 20 May 2020 to 20 August 2021;

Participation in the management of trade companies:

- Bulgarian Development Bank AD, UIC: 121856059, Executive Director and Member of the MB of the Bank;
- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Vice Chairman of the Board of Directors until 20 May 2020;
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Member of the Board of Directors until 20 May 2020;
- BDB Factoring EAD, UIC: 205566082, subsidiary of the Bank, Member of the Board of Directors until 3 June 2020.

Participation in the capital of trade companies – none.

Tihomir Gochev Chemshirov – Vice Chairman of the Board of Directors from 20 May 2020 to 14 September 2021;

Participation in the management of trade companies: none.

Participation in the capital of trade companies – none.

Tsvetomir Georgiev Tsanov – Member of the company's Board of Directors

Participation in the management of trade companies:

- TMI BULGARIA EOOD, UIC: 175330187 - Managing Director
- M2 PROM AD, UIC: 206194254, Member of the Board of Directors

Participation in the capital of trade companies:

- TMI BULGARIA EOOD, UIC: 175330187 – sole owner of the capital.

11.2.4 BDB LEASING EAD (BDB LEASING)

BDB Leasing has a one-tier management system - Board of Directors, consisting of three to five members. As at the end of 2020 and as at the date of approval of this report the Board of Directors consists of the following members:

Board of Directors (as at 31 December 2020):

Jivko Ivanov Todorov – Chairman of the Board of Directors from 20 May 2020 to 23 August 2021;

Emil Valkanov Valkanov – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;

Antonia Hristoforova Dobreva – Member of the Board of Directors since 20 May 2020.

The company has an authorized procurator – **Ivaylo Kirilov Popov** since 1 June 2020.

Board of Directors as at the date of approval of this report:

Krum Georgiev Georgiev since 23 August 2021 – Chairman of the Board of Directors;

Emil Valkanov Valkanov – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;

Antonia Hristoforova Dobreva – Member of the Board of Directors since 20 May 2020;

The company has an authorized procurator – **Ivaylo Kirilov Popov** since 1 June 2020.

The Company is represented by either two of the members of the Board of Directors, jointly. The Procurator may represent the Company only jointly with either one of the members of the Board of Directors of BDB Leasing.

There are no contracts signed pursuant to Art. 240b of the Commercial Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art.247, Para.2, item 4 of the Commercial Act, of members of the BD of BDB Leasing EAD in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

Krum Georgiev Georgiev – Chairman of the Board of Directors since 23 August 2021.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD - Chairman of the Management Board
- BDB Factoring EAD, UIC: 205566082 – Member of the Board of Directors

Participation in the capital of trade companies or cooperatives – none.

Jivko Ivanov Todorov – Chairman of the Board of Directors from 20 May 2020 to 23 August 2021

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059, Executive Director and Member of the Management Board since 14 April 2020;
- National Guarantee Fund EAD, UIC: 200321435, Chairman of the Board of Directors from 20 May 2020;
- First Investment Bank AD, UIC: 831094393, credit institution, Member of the Management Board until 22 April 2020.

Participation in the capital of trade companies – none.

Emil Valkanov Valkanov – – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020.

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

Antonia Hristoforova Dobreva – Member of the Board of Directors since 20 May 2021.

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

Ivaylo Kirilov Popov – procurator.

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

- Vzeh EOOD, UIC: 203745229, partner – until 2 June 2020.

11.2.5 BDB FACTORING EAD (BDB FACTORING)

BDB Factoring EAD has a one-tier management system - Board of Directors, consisting of three to five members. As at the end of 2020 and as at the date of approval of this report the Board of Directors consists of the following members:

<u>Board of Directors (as of 31 December 2020):</u>

Panayot Ivov Filipov – Chairman of the Board of Directors from 20 May 2020 to 16 September 2021;

Georgi Vanyushev Lilyanov – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;

Todor Hristov Gunchev – Member of the Board of Directors since 3 June 2020.

Board of Directors as at the date of approval of this report:

Tsanko Rumenov Arabadzhiev – Chairman of the Board of Directors since 16 September 2021;

Georgi Vanyushev Lilyanov – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;

Krum Georgiev Georgiev – Member of the Board of Directors since 16 September 2021.

The Company is represented by either two of the members of the Board of Directors, jointly.

There are no contracts signed pursuant to Art. 240b of the Commercial Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art.247, Para.2, item 4 of the Commercial Act, of members of the BD of BDB Factoring EAD in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

Tsanko Rumenov Arabadzhiev – Chairman of the Board of Directors since 16 September 2021;

Participates in the management of trade companies:

- Bulgarian Development Bank EAD – Executive Director and Member of the Management Board
- Capital Investments Fund AD, UIC: 205322014 – Member of the Board of Directors

Participation in the capital of trade companies or cooperatives – none.

Krum Georgiev Georgiev – Member of the Board of Directors since 16 September 2021.

Participates in the management of trade companies:

- Bulgarian Development Bank EAD – Chairman of the Management Board
- BDB Leasing AD, UIC: 205565411 – Member of the Board of Directors

Participation in the capital of trade companies or cooperatives – none.

Panayot Ivov Filipov – Chairman of the Board of Directors from 20 May 2020 to 16 September 2021;

Participates in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059, Executive Director and Member of the MB since 30 April 2020;
- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Chairman of the Board of Directors since 20 May 2020;

Participation in the capital of trade companies – none.

Georgi Vanyushev Lilyanov – Executive Director and Vice Chairman of the Board of Directors

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

Todor Hristov Gunchev – Member of the Board of Directors from 3 June 2020 to 16 September 2021.

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

In 2020, there were no material contracts concluded by the BDB Group, which lead to action, are amended, or terminated, due to changes in the control or as a result of performing a compulsory public procurement procedure, and no such contracts are expected to be concluded.

12 TRANSACTIONS WITH COMPANIES UNDER THE JOINT CONTROL OF THE STATE

The owner of BDB is the Bulgarian state. Transactions with related parties and companies under the common control of the State are disclosed in Note 39 to the consolidated financial statements of BDB Group for 2020.

13 EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS

No adjusting events or significant non-adjusting events have occurred after the reporting date until the date of approval of the consolidated financial statements. The changes in the management bodies of the Bank and its subsidiaries, the sole shareholding form and the Statutes of the Bank and its subsidiaries, made in 2021 are disclosed in section 2.1 of this report. After the date of the financial statements the following non-adjusting events occurred:

At the beginning of January 2021, the BDB's partner banks under **Interest-free Loan Guarantee Program to protect people deprived of the opportunity to work due to the COVID-19 pandemic** started accepting applications in accordance with the updated by Decision of the Council of Ministers № 910/10.12.2020 terms under the program, with the main changes, approved by Decision of the Council of Ministers № 910/2020 being the increase of the limit **of interest-free loans guaranteed by the BDB for one person from BGN 4,500 to BGN 6,900 and extending the application period until 30 June 2021** or until the guarantee limits of the commercial partner banks under the Programme are exhausted. In the calculation of provisions as at 31 December 2020, this increase is taken into account.

Bulgarian Development Bank EAD and the University of National and World Economy will carry out joint research in the field of finance and corporate governance. This is possible after the signing in February 2021 of a 3-year memorandum of cooperation between the two institutions. The Agreement provides for initiatives in the field of banking, financing of small and medium-sized enterprises, acquisition of holdings, processing of statistics, etc. On-site visits to the companies of the BDB Group, meetings with experts, organization of educational and pre-graduate internships and practices will be organized. It is also envisaged to hold joint scientific events, trainings and competitions.

Bulgarian Development Bank EAD and Sofia University "St. Kliment Ohridski" signed in April 2021 a Memorandum of Cooperation providing for support for the training and career development of students and PhD students from the University, partnership in carrying out research and scientific research related to banking, financing of small and medium-sized enterprises, good corporate governance, etc.

On 1 March 2021 the international rating agency Fitch Ratings **increased the outlook for the Bulgarian Development Bank EAD** from stable to **positive** and **confirmed the long-term credit rating of the Bank**

to "BBB". On 1 October 2021 “Fitch Ratings“ **confirmed the long-term credit rating of the Bulgarian Development Bank BBB with a positive outlook**. The assessment shows a balance of risks related to the rating assessment. As an argument is pointed out the high probability of support of the sovereign - the Bulgarian State, and the financing provided or guaranteed by it. This level is equal to the Fitch's rating for the Republic of Bulgaria and is practically the highest possible credit rating for the National Development Bank. All other ratings of the bank have been confirmed. The factors that can lead to a change in the rating are also considered. An increase or decrease could be a consequence of a change in the rating of Bulgaria, the assessment of the state's tendency to support the bank or a change in the capitalization of BDB. The rating agency also reports the role of the bank in government programs to support companies and individuals who are suffering from the negative effects of the COVID-19 pandemic.

According to Decision of the Council of Ministers No 194 /05.03.2021, "Bulgarian Development Bank" EAD was granted the right to **increase by up to BGN 100 million** the amount of the guarantee programme for interest-free loans to individuals on unpaid leave and self-insured (the "Interest-free Loan Guarantee Program to protect people deprived of the opportunity to work due to the COVID-19 pandemic") at the expense of the budget of the Portfolio Guarantees Programme to support the liquidity of enterprises affected by the state of emergency and the Covid-19 pandemic. Thus, the possibilities for making guarantee commitments under the Guarantee Programme for interest-free loans for individuals on unpaid leave and self-insured was increased to EUR BGN 300 million.

By Decision of the Council of Ministers No 506/15.07.2021, the deadline for applying under the Interest-free Loan Guarantee Program to protect people deprived of the opportunity to work due to the COVID-19 pandemic is extended until 31 August 2021 or until the guarantee limits of the commercial partner banks under the Programme are exhausted.

The Portfolio Guarantees Programme to support the liquidity of enterprises affected by the state of emergency and the Covid-19 pandemic was updated by Decision of the Council of Ministers No 194/05.03.2021 and by Decision of the Council of Ministers No 578/05.08.2021.
The programme is aiming to synchronize it with the upgrading mechanism for intervention developed in May 2021 by the Ministry of Economy and the Ministry of Finance, which provides liquid support to enterprises - "Portfolio guarantee to overcome the consequences of COVID 19". Last changes of the Programme approved by Decision of the Council of Ministers No 578 / 05.08.2021 become effective after Decision of the European Commission No C (2021) 7260/01.10.2021 regarding state aid SA.64711 (2021/N)–Bulgaria COVID-19 for second amendment of state aid SA.56933 (2020/N) adopted by Decision of the European Commission No C (2020) 2342/8.04.2020. As a result the scope of eligible borrowers is changed: micro, small and medium-sized enterprises within the meaning of Small and Medium-sized Enterprises Law (SME Law), as well as companies with 499 or less employees meeting one of the following two criteria: up to EUR 100 million assets and/or up to EUR 86 million revenue (small mid-caps) that suffer from negative economic effects from the COVID-19 pandemic.

The guarantees provided by BDB may include new loans for investment and/or liquidity needs for working capital including for payroll, rents, overheads, etc. directly related to the business activity of the companies. The application deadline for financing under the new requirements of the Programme is until 20.12.2021 and the deadline for including loans in the guaranteed portfolio is until 31.12.2021.

Bulgarian Development Bank EAD appointed two representatives in the management of the Investment Fund "Three Seas" - in March 2021, the executive directors of the Bulgarian Development Bank Nikolay Dimitrov and Panayot Filipov were elected at the General Meeting of the Investment Fund "Three Seas" to represent Bulgaria in the Investment Fund. Following changes in the management of the Bulgarian Development Bank for new representatives of the Bank by decision of the General Meeting of the Investment Fund of 22 September 2021 were elected: as a member of the Supervisory Board of the Investment Fund – Mr. Tsanko Arabadzhiev – member of the Management Board of the Bulgarian Development Bank and Executive Director, and Mr. Ilya Lingorski – Chief Economist of the Bulgarian Development Bank as member of the Management Board of the Investment Fund, which will provide part of the necessary funding to strengthen cooperation between member states in the Black, Adriatic and Baltic Seas region. In July 2021, BDB hosted the investment panel during the Three Seas Forum in Bulgaria. The Investment Fund "Three Seas" is a financial mechanism for the realization of the priority projects in the region: transport, digital and energy infrastructure. Its exclusive investment adviser is Amber Infrastructure Group (Amber) - a specialized international manager working in the field of investment creation, asset and fund management. BDB has proposed new representatives in

The Pan-European Guarantee Fund was created as part of the overall package of measures of EU and the European Investment Bank Group to reduce the economic consequences of the COVID-19 pandemic. Its final beneficiaries are mainly small and medium-sized enterprises within the EU and public enterprises providing important services such as healthcare, medical research, etc. Total funding is expected to reach EUR 200 billion. The Group of the Bulgarian Development Bank applied and was approved as a financial intermediary under the guarantee program of the Pan-European Guarantee Fund, under which its new product was created.

From the end of September 2021, with the help of the financial instruments of the Pan-European Guarantee Fund, BDB will present three new niche products on the Bulgarian market aimed at small and medium-sized businesses, the creative and creativity industries sector and manufacturing start-ups. The programme is in partnership with the Pan-European Fund and has a budget of EUR 40 million, as through it BDB will be able to lend directly with even more facilitated conditions.

With regard to the companies of BDB Financial Group, there are no other significant events that occurred in the period from the reporting date to the date of approval of this report, which would require additional disclosures in the annual financial statements as of 31.12.2020.

14 MANAGEMENT STATEMENT

The management of BDB declares that the attached annual consolidated financial statements accurately reflect the property and financial position of the Group at the end of 2020, as well as the determination of the financial result for the year, in accordance with the legislation in force. An appropriate accounting policy has been used, which has been applied consistently. When preparing the consolidated financial statements, the necessary assessments have been made, in accordance with the prudence concept. Management consistently uses the applicable accounting standards, and the annual consolidated financial statements are prepared on a going concern basis.

The management of the Bank shall endeavour to maintain an appropriate accounting system that meets the accounting standards in force. The annual consolidated financial statements disclose the position of BDB Group with a reasonable degree of accuracy.

All measures have been taken to protect the assets of BDB Group, prevent fraud and prevent violation of the laws in the country and the regulations of the BNB for regulating banking activity.

This Management report was adopted on 2 December 2021 by the Management Board of "Bulgarian Development Bank" EAD and was signed by:

VLADIMIR GUEORGUIEV	JIVKO TODOROV	TSANKO ARABADZHIEV
MEMBER OF THE MANAGEMENT BOARD AND EXECUTIVE DIRECTOR	MEMBER OF THE MANAGEMENT BOARD AND EXECUTIVE DIRECTOR	MEMBER OF THE MANAGEMENT BOARD AND EXECUTIVE DIRECTOR

BULGARIAN DEVELOPMENT BANK
BULGARIAN DEVELOPMENT BANK
SOFIA

ANNEX 1: BDB GROUP CORPORATE GOVERNANCE STATEMENT

1 PRINCIPLES OF CORPORATE GOVERNANCE

This corporate governance statement has been prepared in accordance with Art. 40, para. 1 of the Accountancy Act. The information provided takes into account the fact that Bulgarian Development Bank EAD has not issued securities admitted to trading on a regulated market or shares that are traded on a multilateral trading system.

2 THE BDB GROUP

As of the end of 2020, the financial group of the Bulgarian Development Bank[4] (the "Group", the "BDB Group" or the "Financial Group") includes "Bulgarian Development Bank" EAD ("BDB", the "Bank") and its subsidiaries – "National Guarantee Fund" EAD ("NGF"), "BDB Microfinancing" EAD – former Micro Financing Institution Jobs EAD [5] ("BDB Microfinancing"), "Capital Investments Fund" AD ("CIF"), "BDB Leasing" EAD („BDB Leasing“) and "BDB Factoring" EAD („BDB Factoring“).

As a credit institution established pursuant to a special act - the BDB Act („BDBA") - and at the same time, applying all regulatory requirements of Bulgarian National Bank ("BNB") and the European legislation, and in performing its mission of being a sustainable instrument of the government policy for promoting the development of the small and medium-sized businesses in Bulgaria, Bulgarian Development Bank EAD has set as its goal to be a benchmark for good corporate governance and corporate responsibility, while consistently and strictly observing the National Corporate Governance Code of 2016, The Code of Professional Conduct of 2020 adopted by the Bank, the Code of Ethics of the Internal Audit of the BDB Group of 2020, as well as good corporate and banking practices.

Bulgarian Development Bank EAD holds a license for an investment intermediary according to which it may provide investment services and perform investment activities under Article 6, paragraph 2 of the Markets in Financial Instruments Act (MFIsA), as well as additional services under Art. 6, paragraph 3 of the MFIsA according to a granted license from BNB.

Investment services are provided and investment activities are performed in accordance with the requirements of MFIsA, Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (Directive 2014/65/EU or MIFID II), Regulation (EU) 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets In financial Instruments and amending Regulation (EU) No 648/2012 (Regulation (EU) 600/2014), Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (Delegated Regulation (EU) 2017/565) and the acts on their implementation, Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) and repealing Directive 2003/6/EC of the European Parliament and

[4] As of 31 December 2020, the Bank is the sole owner of TC Maritza EOOD. The company is not part of the strategic business model of the Financial Group of BDB.

[5] The name of the company Microfinancing Institution JOBS EAD was changed to BDB Microfinancing EAD as of 12 April 2021.

of the Council and Directives 2003/124/EC, 2003/125/EC and 2004/72/EC of the Commission and others, as well as the applicable laws and regulations of the Republic of Bulgaria.

The Bank does not provide investments services or perform investment activities under Article 6, paragraph 2, items 8 and 9 of the MFIsA - organisation of a multilateral trading facility and an organised trading facility.

Bulgarian Development Bank EAD applies and maintains systems and procedures that guarantee the security, completeness and confidentiality of its operations as an investment intermediary. In view of the above, the Bank has adopted and updated its internal regulations in accordance with the applicable legislation.

2.1 "BULGARIAN DEVELOPMENT BANK" EAD (BDB, the Bank)

Bulgarian Development Bank EAD (BDB, the Bank) was incorporated on 11 March 1999 as a joint stock company under the name of Encouragement Bank AD.

On 23 April 2008, the Bulgarian Development Bank Act (BDBA) was adopted. It arranges the scope of activity of the Bank and its subsidiaries that may be established.

The head office and registered address of Bulgarian Development Bank EAD is Sofia 1000, Sredets area, 1, Dyakon Ignatii Street.

As of 31 December 2020, Bulgarian Development Bank EAD has no branches.

The Bank complies with the requirements of the BNB for minimum required share capital for the exercise of banking activity, as well as the capital requirements of BDBA. From its founding until August 2017, the state participation in the BDB is under the control of the Minister of Finance. With an amendment to BDBA in 2017, the management of state participation passes under the control of the Minister of Economy.

As at 31.12.2020 the ownership of the capital is distributed as follows: 99.99994% are held by the Republic of Bulgaria, the rights of the state in the general meeting of shareholders are exercised by the Minister of Economy and 0.00006% are held by "DSK Bank" EAD.

On 13 May 2021 the Council of Ministers adopted Decision No 414 to increase the state's shareholding in the capital of Bulgarian Development Bank. This decision approves the increase in the shareholding of the state in the capital of "Bulgarian Development Bank" AD by acquiring by donation all shares held by DSK Bank EAD in the capital of "Bulgarian Development Bank" AD, namely 8 dematerialized shares, each with a nominal value of BGN 100, a total of BGN 800, representing 0.000055 per cent of the capital of "Bulgarian Development Bank" AD was approved.

On May 14, 2021, a contract was concluded for the donation of 8 dematerialized shares between DSK Bank AD and the Republic of Bulgaria. The transfer of ownership of the shares is registered with the Central Depository of the Republic of Bulgaria.

On June 4, 2021, the Bulgarian Development Bank was registered in the Commercial Register and the register of non-profit legal entities as a sole commercial company.

As of 31 December 2020, the capital of the Bank amounts to BGN 1,441,773,500 composed of 14,417,735 pcs. ordinary, registered, dematerialized shares with voting rights, each with a nominal value of BGN 100. BDB shares are not traded on a regulated market.

The Bulgarian Development Bank Act sets forth that a package of at least 51% of the shares of the capital of the Bank shall be state owned, which are non-transferable. The rights on the shares cannot be subject to transfer agreements.

Pursuant to Art. 6 Par. 4 of the BDB Act the shares in the capital of the Bank, besides the Bulgarian state, may be acquired and owned by the Council of Europe Development Bank, the European Investment Bank and the European Investment Fund, by development banks of Member States of European Union. In these cases art. 31 of the Credit Institutions Act does not apply. Pursuant to Art. 6 Par. 4 of the BDB Act the members of the Management and controlling bodies, the procurators and the senior management cannot hold shares and cannot be provided with options for shares of BDB, and in subsequent accounting periods no agreements may be concluded as a result of which in any future period changes may occur in the relative volume of shares held by current shareholders.

The management of the BDB shall be carried out in accordance with Art. 5 of the BDB Act, according to which the Bank has a two-tier system of governance and the rights of the state in the General Meeting of Shareholders of the Bank are exercised by the Minister of Economy.

At the end of 2020, the BDB has no obligations under existing or new securities issues.

As at 31 December 2020, there is no judicial, administrative or arbitration proceedings concerning liabilities or receivables of the BDB Group of 10% or more of equity.

Pursuant to the Statute of BDB, the lending activity of the Bank is focused on:

- Pre-export and export financing of small and medium-sized enterprises (SMEs),
- Financing other operations of SMEs, either through intermediary banks or directly,
- Refinancing of banks granting loans to SMEs,
- Financing of investments by SMEs abroad,
- Participation in public and public-private projects or partnerships of strategic, national or regional importance.

The Bank also provides other types of loans according to a procedure set by the Management Board, whereas the amount of the exposure to one customer or a group of related parties is subject to the requirements and limitations laid down in the Law on Credit Institutions Regulation 575/2013/EU and the regulations for their application.

The Bank shall not lend funds to:

1. Activities not compliant with the National law, including for environment protection;
2. Business companies with unknown ultimate controlling owner;
3. Political parties and persons related to them. Persons related to political parties may be: youth, women's and other organizations, which the parties may establish according to the law, as well as entities, established by the political parties for performing the only business activities, which they are legally allowed to do - publishing activity, copyrights and using intellectual property,

as well as the sale and distribution of printed, audio and audio-visual materials with party campaigning content;

4. Non-profit enterprises and organizations;
5. Media;
6. Activities related to sport and sports initiatives;
7. Activities prohibited by law.

The Bank provides loans directly or through commercial banks - intermediaries. The terms and conditions for providing loans are determined by the Management Board.

The Management Board passes unanimous decision to form exposures to one client or a group of related clients, if it exceeds 5% of the Bank's equity, in compliance with requirements of the Law on Credit Institutions, the internal rules of the Bank and after prior authorisation of the Supervisory Board.

As of 31 December 2020 and 31 December 2019, there is no exposure of a client or group of connected clients that is greater than 25% of the Bank's regulatory equity.

In view of its specific function of conducting a state promotion policy, the BDB prioritizes in its activities programs and products for the promotion of SMEs, on-landing programs, export financing and funding under assigned mandates. The largest credit exposure of the Bank provided to a group of related parties (outside banking institutions) amounts to BGN 198,839 thousand (including BGN 159,154 thousand in gross carrying amount, BGN 33,157 thousand for utilization and BGN 6,528 thousand in guarantees) (for 2019: BGN 152,450 thousand) at amortised cost, representing 19.14% (2019: 20.74%) of the Bank's equity (the Bank's eligible capital, calculated in accordance with Regulation 575/2013/EU, at the amount of BGN 1,038,884 thousand). (2019: BGN 735,176 thousand). An analysis of the structure of the loan portfolio by segment is provided in the consolidated and separate financial statements of the Bank.

Bearing in mind the specific activity of the Bank, as of 31 December 2020, the funds attracted from 20 largest non-bank depositors represent 85.10% of the total amount of liabilities to other clients (31 December 2019: 92.28%). The share of the largest non-bank depositor in the total amount of the liabilities to other customers amounts to 15.83% (as at 31 .12.2019: 33.50%).

In 2020, the Council of Ministers commissioned the Bulgarian Development Bank implementation of two programmes aimed at reducing the economic consequences of COVID-19 spread:

- The program for guaranteeing interest-free loans in protection of people deprived of the opportunity to work due to the COVID-19 pandemic (amount: BGN 200 million from the capital of the Bank);
- The program for portfolio guarantees to support the liquidity of enterprises affected by the state of emergency and the COVID-19 pandemic, approved by Decision No 310 of the Council of Ministers of 2020. More information on the implementation of the programs is published on the Bank's website (amount: BGN 500 million from the capital of the Bank).

In view of its specific activity, the BDB Group utilizes significant external funding from international financial institutions. Detailed information on the received external credit lines is disclosed in a note to the financial statements.

2.2 „NATIONAL GUARANTEE FUND“ EAD (NGF)

National Guarantee Fund EAD is a company founded on 12 August 2008 on the basis of the Bulgarian Development Bank Act and was registered at the Commercial Register on 22 August 2008. According to the Credit Institutions Act, the National Guarantee Fund EAD is a financial institution entered in 2009 into the Register by BNB under Art.3, Par.2 of CIA. In compliance with the Statute of the company the principal activities include

- Issuing guarantees for supplementing the collateral under loans to small and medium-sized enterprises;
- Offering other products to small and medium-sized enterprises, like: guarantee for participation in a tender; performance guarantee; advance payment guarantee; guarantee for payment of a loan of an exporter, etc.;
- Issuing guarantees for supplementing collateral under loans to small and medium-sized enterprises, carrying out research and development and for implementing these products and scientific developments into the industry;
- The guarantees issued by NGF at its own risk may cover not more than 50 percent of the liability. By an amendment to the BDB Act, promulgated in the State Gazette, issue 102 of 21 December 2012, the guarantees issued by NGF in connection with guarantee schemes under the Rural Development Programme for 2007 - 2013 and Development of the Fisheries Sector Operational Programme for 2007- 2013 may cover up to 80 percent of the liability;
- Other activities, not particularly prohibited by law.

The scope of activity of NGF EAD is regulated as a scope in Chapter X of the Bulgarian Development Bank Act (SG 43 / 29.04.2008).

The registered capital of the company as of 31 December 2020 amounted to BGN 80,000,000 split into 800,000 shares with nominal amount of BGN 100 each, the shares are ordinary, materialised, registered and indivisible, and each share gives the right to one vote. The company's capital is fully paid in.

The seat and management address of the National Guarantee Fund EAD is Sofia, 1, Dyakon Ignatii Str.

As of 31 December 2020, NGF has 11 employees.

As of 31 December 2020, NGF has no branches.

2.3 BDB Microfinancing EAD - former Microfinancing Institution JOBS EAD (BDB Microfinancing)

BDB Microfinancing EAD was registered at the Commercial Register on 14 January 2011. The principal activities include Microfinancing, including providing micro-loans, acquiring from third parties and leasing industrial equipment, automobiles and other vehicles, as well as other items (finance lease), purchase and sale, and import of such items, consulting services, trade representation and mediation for local and foreign individuals and legal entities operating on the territory of the country, as well as any other activity not prohibited by law.

By decision on 23 March 2021 of the Management Board of BDB, as the sole owner of the capital of BDB Microfinancing EAD, the name of the company was changed from Microfinancing Institution JOBS

EAD to BDB Microfinancing EAD, together with the statute of the company was changed. As of 12 April 2021, Microfinancing Institution JOBS EAD was renamed to BDB Microfinancing EAD.
As at 31.12.2020, the registered capital of BDB Microfinancing is BGN 7,643,000 and is distributed to 76,430 shares with a nominal value of BGN 100 each. The shares are ordinary, materialized, registered and undividable, each share giving the right to one vote. The capital of the company has been fully paid up.
By a decision of 1 September 2021, the Management Board of BDB, as the sole owner of the capital of BDB Microfinancing EAD, decided to increase the capital of "BDB Microfinancing" EAD by cash contribution of BGN 7,000,000 by issuing 70,000 new ordinary, registered shares with par value of BGN 100 each. The new shares are paid by BDB and the increase in the capital is entered in the Trade Register on 13.10.2021. Following the increase of the capital the statute of BDB Microfinancing EAD was amended.
The seat and management address of the BDB Microfinancing EAD is Sofia, 1, Dyakon Ignatii Str.

As of 31 December 2020, BDB Microfinancing EAD has 15 employees.

As of 31 December 2020, BDB Microfinancing EAD has no branches.

2.4 CAPITAL INVESTMENTS FUND AD (CIF)

Capital Investments Fund AD (CIF) was incorporated on 24 August 2018 and registered on 04 October 2018 as a joint-stock company with 100 percent of ultimate participation of BDB (84.62% of direct participation of BDB, or 550,000 shares, and indirect participation through NGF - 15.38%, the owner of the remaining 100,000 shares). The registered capital as of 31 December 2020 consisted of 650,000 registered shares with par value of BGN 100 each, totalling BGN 65,000,000 and fully paid-in.
The activities of CIF include:

- Participation in the capital of small and medium-sized enterprises;
- Provision of advisory services on the capital structure of small and medium-sized enterprises, consultations and services relating to the transformation of enterprises under Art. 261 of the Commercial Act;
- Investment advisory services;
- Advisory services for the management of pools of securities of small and medium-sized enterprises; as well as other activities that are not expressly prohibited by law.

A key priority is to provide capital for the growth of small and medium-sized enterprises with an established business model and opportunities for accelerated expansion in the domestic and international markets.

The seat and management address of the Capital Investments Fund AD (CIF) is Sofia, 1, Dyakon Ignatii Str.

As of 31 December 2020, CIF has 2 employees.

As of 31 December 2020, CIF has no branches.

2.5 BDB LEASING EAD (BDB LEASING)

BDB Leasing EAD, UIC: 205565411, was established at a constituent meeting held on 6 March 2019 and entered in the Trade Register on March 12, 2019. Bulgarian Development Bank EAD has 100% direct participation in the capital of the company.

The scope of BDB Leasing's activity comprises finance lease, lending with funds that are not raised through public attraction of deposits or other repayable funds, all additional and servicing leasing and lending activities.

The sole owner of the capital of BDB Leasing is Bulgarian Development Bank EAD. The capital of the company, paid-in at the time of the establishment amounted to BGN 2,000,000, distributed to 20,000 ordinary registered shares with a par value of BGN 100 each. With Protocol No. 83/14.09.2020 the Management Board of BDB, acting as sole owner decided to increase the capital of BDB Leasing from BGN 2,000,000 to BGN 20,000,000 by issuing 180,000 new shares with par value of BGN 100. The capital was fully paid-in on 15.09.2020 and the increase was entered in the Trade Register on 24.09.2020.

The seat and management address of BDB Leasing is Sofia, 1, Dyakon Ignatii Str.

As of 31 December 2020, BDB Leasing EAD has 10 employees.

As of 31 December 2020, BDB Leasing has no branches.

2.6 BDB FACTORING EAD (BDB FACTORING)

BDB Factoring is a company incorporated on 06.03.2019 and registered on 31 March 2019 as a joint-stock company, with a 100% direct participation of BDB AD. It was established on the basis of Art. 4, para. 7 of the Bulgarian Development Bank Act as a subsidiary of the Bank.

The object of "BDB Factoring" EAD is to carry out transactions for the transfer of one-time or periodic cash receivables arising from the supply of goods or the provision of services (factoring), lending with funds not raised by public attraction of deposits or other repayable funds and any additional and servicing factoring and lending activities.

The capital of the company was paid up in full at the time of the establishment and amounted to BGN 2,000,000, distributed to 20,000 ordinary registered shares with a nominal value of BGN 100.

The seat and management address of BDB Factoring is the town of Sofia, 1000, 1, Dyakon Ignatii Str.

As of 31 December 2020, BDB Factoring EAD has 8 employees.

As of 31 December 2020, BDB Factoring has no branches.

By Protocol №21/23.03.2021 the Management Board of BDB in its capacity of sole owner of the capital of BDB Factoring EAD took a decision to merge BDB Factoring in BDB, and BDB will assume fully the activities of BBR Factoring, as well as its assets and liabilities. The Bulgarian National Bank and the Commission for Protection of Competition have adopted decisions in relation to the transformation and finalization of the procedure is forthcoming.

3 BDB GROUP RISK MANAGEMENT

In the ordinary course of business, the companies of BDB Group are exposed to various risks, the occurrence of which may lead to loss formation and a deterioration in the financial stability of the Group. These risks shall be identified, measured, assessed and controlled using controls in order to be managed and to avoid the concentration of unjustified risk. The risk management process is essential for the group's profitability. The main risks to which the Group is exposed are credit, market, liquidity and operational.

In managing the different types of risk arising from the activity, the Group is guided by the principles of conservatism, objectivity, and full compliance with the national and European regulations in force. In support of this policy, the Group maintains significantly higher levels of liquidity buffers and capital adequacy than those regulatory determined.

The adopted internal normative document "Risk Management and Control Policy of BDB EAD" sets out the objectives and principles for managing the main risks identified in the activities of "Bulgarian Development Bank" EAD, including risk appetite, strategies, risk framework, management organization, as well as responsibilities for their measurement, control, management and reporting. The policy is applicable to "Bulgarian Development Bank" EAD and its subsidiaries "National Guarantee Fund" EAD, "BDB Microfinancing" EAD, "Capital Investments Fund" AD, "BDB Leasing" EAD and "BDB Factoring" EAD.

3.1 Main risks

3.1.1 Credit risk of BDB Group

The credit risk is the main risk, to which BDB and the Group companies are exposed, therefore its management is crucial for its activity. The credit risk management takes place in compliance with the BDB Act and the effective laws and regulations of the Republic of Bulgaria that regulate the credit activity and the approved international standards and established best banking practices.

BDB has established and operates bodies for monitoring, controlling and assessing the quality of the loan portfolio. Procedures and mechanisms have been introduced for ongoing monitoring, recording and management of the credit portfolio requiring periodic and, if necessary, extraordinary reports on the financial and legal status of each borrower and liable persons. If new circumstances are established, which may lead to a change in the risk profile of the borrowers, including increasing the risk of default of the credit exposure, adequate measures are undertaken, which take into account the risk profile of the debtor.

The management of BDB's credit risk is based on the following basic principles:

- comprehensive and in-depth credit risk assessment at the credit proposal examination stage;
- use of credit risk mitigation tools;
- ongoing and systematic monitoring of the level of credit risk on an individual and portfolio basis;
- the existence and implementation of clearly defined credit risk management procedures and processes and immediate commitment in the credit risk management process by the Management Board and the Risk Management Committee.

All credit risk management processes and procedures are clearly defined, with clearly established procedures in place for approving new loans, modifying or revolving existing ones and duly defined processes and responsibilities of the units involved in the ongoing credit risk monitoring and control processes. The Group's internal policies and rules regulate the most important risk mitigation tools and actions and determine BDB's tolerance/predisposition to take credit risks.

Loan approval is carried out on the basis of clear and well-defined criteria taking into account the specifics of the respective customer, market, purpose and structure of the loan and the source of its service. Internal methodologies for credit risk analysis and assessment are based on a set of quantitative and qualitative indicators taking into account the characteristics of the debtor and the transaction. The analysis of the creditworthiness of the Bank's counterparties focuses on identifying the key financial and business risks inherent in the client. As a result of all this complex assessment, a credit rating shall be issued to each counterparty reflecting its individual probability of default. The process of awarding an internal credit rating is based on a rating model developed by the Bank, regulated in the internal banking regulations. The rating of a company is based on a cumulative assessment of the quantitative and qualitative indicators of the client. Credit rating is an essential element of the credit process and is at the heart of the credit decision-making assessment and the process of estimating expected credit losses on financial assets.

An essential element in credit risk management is the application of credit risk mitigation instruments. The Bank's strategy requires adequate collateral to be provided for the provision of loans. The percentage and composition of the collateral provided shall be subject to the comprehensive credit risk assessment of each individual counterparty and project and shall be approved by the competent authority of the Bank. In carrying out its activities, the Bank does not form unsecured credit exposures. The types of collateral and guarantees acceptable to the bank are regulated in the internal banking regulations.

Ongoing credit risk monitoring is another key element of the credit risk management process. The controls are carried out at the level of the individual counterparty and at the portfolio level. All credit exposures are subject to regular monitoring (credit review), its frequency of preparation being determined by the counterparty's internal credit rating, but not less than once a year. Notwithstanding regular credit reviews of counterparties, an early warning system based on a set of warning signals for counterparties indicating a potential increase in credit risk is used.

In the management of credit risk, BDB complies internal rules set by the Bank, with a system of limits set by internal regulations of the Bank by economic sectors, by instruments, as well as other credit and concentration limits, and the results of the monitoring of their compliance are reported to the competent authorities. The system of limits is reviewed and updated periodically.

The assessment of credit risks is accompanied by regular stress tests, which assess the impact of highly negative shocks on the financial performance and capital adequacy of the BDB Group. The management of the credit risk under the off-balance-sheet (guarantee) commitments made by the NGF is on two levels – at the level of individual transaction (guarantee) and at portfolio level. Credit risk at individual level is managed in accordance with the internal rules and procedures for the guarantee activity for issuing a guarantee.

At portfolio level, credit risk is managed through payment limits (caps) limiting the NGF's commitment to pay up to a certain share of the amount of the guarantee portfolio issued under a programme to a bank. The subsequent management of the credit risk undertaken by the NGF shall be carried out through monitoring procedures within which the Fund may exclude from the guaranteed portfolio certain loans which do not meet specific requirements of the signed guarantee agreements.

In order to minimize credit risk, BDB Microfinancing shall pre-assess the creditworthiness of customers, as well as ensure the implementation of appropriate rules and policies and their compliance with the related procedures and controls for ongoing monitoring of each financing transaction. The risk exposure of the credit and leasing portfolio shall be managed by analysing the ability of counterparties to comply with their payment obligations and by placing appropriate credit limits. Credit risk is also partially reduced by accepting different types of collateral.

The credit risk in BDB Leasing is managed independently for each project, by analysing the ability of customers to service their obligations on interest and principal payments and by constant monitoring of the net realisable value of the leasing property (collateral). An individual assessment of the creditworthiness and level of acceptable risk shall be made in respect of each client. Internal rules on the approval of lease exposures shall apply. Lease contracts are entered in the Central Register of Special Pledges and the property is insured for the benefit of the Lessor. At the discretion of the competent decision-making authority, additional collateral may also be required, e.g., joint liability, promissory notes, pledge of receivables under contracts, pledge of a commercial enterprise, pledge of movable property, etc.

Following the example of the other companies in the BDB Group, BDB Factoring implements a policy for managing and reducing credit risk by analysing and assessing the creditworthiness of both suppliers and payers in factoring transactions, which is coordinated with the units in the bank. The company's activity is focused on creating a well-diversified portfolio of clients with a good and low risk profile, with the initial focus being supporting existing clients for the Bank Group, as well as creating new stable customer relationships and attracting companies operating in the factoring market. It always strives to have credit/commercial risk insurance of trade receivables to its advantage and thus to transfer the risk of non-payment to an acceptable insurer with a limit approved by a competent authority in the Group of the Bank.

Due to the specifics of the activity of "Capital Investments Fund" AD, there is no credit risk for the company.

3.1.2 Market risks of the BDB Group

In managing foreign exchange risk, the BDB Group implements a strategy for maintaining minimum open currency positions, subject to established limits. Positions in different currencies as well as the common currency position are monitored on a daily basis. Foreign exchange positions are not formed for speculative purposes but are the result of foreign exchange operations arising in the ordinary course of business of the Group. In the management of assets and liabilities, due to its specific financing, the BDB Group strives that these assets and liabilities are denominated in EUR or BGN. The management and control of foreign exchange risk shall be carried out by means of limits for maximum net open position by currency type and for a common net foreign exchange position.

The main elements in the process of managing foreign exchange risk include the day-to-day management and control of net open positions by currencies and generally within the established limits. The open currency position complies with the conditions and possibilities for netting positions in EURO and BGN, as provided by the applicable regulatory framework.

In managing interest rate risk, the BDB Group shall follow the principle of maintaining a balanced structure of its interest-sensitive assets and liabilities, seeking to maintain consistency between the periodicity of change in interest on assets and liabilities, as well as a correlation between the applicable reference rates on the assets and liabilities of the Group. Management and control of interest rate risk shall be carried out through a system of limits on the maximum acceptable (quantitative) impact of various shock scenarios concerning the change in market interest rates on net interest income on a one-year horizon and the economic value of the Group's capital. The internal limit framework limits the potential risk to expected future returns and the economic value of capital, within acceptable levels corresponding to the risk tolerance of the BDB Group. The interest rate risk assessment is carried out using a set of techniques including yield-based measurement, measurement based on the economic value of capital, analysis of discrepancies, interest rate stress scenarios. Regular reports and analyses are prepared for the financial assets and liabilities of the BDB and the companies of the Group, distributed at time intervals, according to their sensitivity to changes in interest rates.

Risk-taking, when carrying out money and capital market operations, is managed through a system of limits reflecting the risk profile of investments. The limits are determined by portfolio parameters such as counterparty, financial instrument, maturity, etc. The system of limits is reviewed periodically, and the implementation of the limits is subject to daily monitoring. The portfolio of securities formed by the BDB Group for the purpose of investing free funds is characterised by relatively low interest rate risk and relatively liquid GS and securities issued by reliable institutions, i.e., low price risk. In 2020, the BDB Group did not maintain a trading book and was not subject to capital requirements for market risk from commercial activities, according to regulatory regulations.

Liquidity risk management and control is carried out through day-to-day liquidity monitoring and management, maintaining access to sufficient liquidity to ensure the discrepancies between incoming and outgoing cash flows at maturity intervals, both in a normal banking environment and in different liquidity-aggravated scenarios. For liquidity risk management and control purposes, the Group applies internal rules and procedures through which a system of liquidity indicators including limits and early warning indicators is established. The liquidity of the Bank is managed by closely monitoring ratios indicating the liquidity position by period. Liquidity risk is measured by applying additional cash flow scenarios. The Group's liquidity buffers and additional sources of funding for market and idiosyncratic shocks are measured and monitored. The main focus of liquidity management is to maintain an adequate level of liquidity buffer in accordance with the established limits and limits set according to the risk tolerance of BDB Group. Compliance with liquidity ratio limits is monitored and reported regularly to the competent authorities.

The assessment of market risks is complemented by regular stress tests, which assess the impact of highly negative shocks on the financial performance and capital adequacy of BDB Group.

3.1.3 Operational risk of the BDB Group

For the management of operational risk, the BDB Group applies a systematic approach covering the collection of objective information, timely identification of operational risk, its measurement (qualitative and quantitative), the identification of dependencies with other types of risk and the application of measures to limit its impact on the financial performance and on the capital of the Bank. In the management of operational risk, all operational events arising in the activities of the different structural units as a result of processes in the activities of the BDB Group are recorded, identifying and managing the full range of operational risks. Operating events characterised by a higher frequency, as well as those with a large potential or real effect on the financial performance of the BDB or the Companies of the Group, are subject to close investigation and monitoring. They serve as the basis for operational risk analyses in various scenarios, including when performing an operational risk stress test. Operational risk is measurable and manageable by maintaining an operating event log that serves as a basis for analysing and improving work processes and minimizing conditions that would potentially lead to operational events and losses for the Group. Limits are applied to key operational risk indicators that perform the function of early warning signals for potential operational risk increase in order to ensure that critical issues are addressed, and a timely management response is triggered where necessary. Under the applicable regulatory framework, the capital required for operational risk is calculated using a base indicator approach.

3.2 Structure of risk management

The main units directly responsible for risk management, are the following:

For the Parent Company (the Bank):

- Supervisory Board - performs overall supervision on risk management; In carrying out its powers, the Supervisory Board of the Bank is assisted by specialized committees as follows:
  - Risk Management Committee (RMC) - advises the Supervisory Board and the Management Board on the overall current and future risk strategy and the Bank's propensity to take risks and supports the control of its implementation by senior management staff. The RMC regularly reviews information on the analysis, management and control of risks, informing it of the overall risk profile, implementation of the risk restrictions, as well as the capital and liquidity position of BDB.
  - Audit Committee (AC) – the responsibilities of the AC with regard to risk include monitoring of financial reporting processes, monitoring the effectiveness of internal control systems, monitoring the effectiveness of risk management systems, monitoring of internal audit activities and the implementation of the audit plan, monitoring the independent financial audit, making recommendations for the selection of a registered auditor and reporting to the Supervisory Board on all matters within its competence;
  - Remuneration Committee - prepares and proposes remuneration decisions, taking into account the impact on risk and its management, the long-term interests of shareholders, investors and other stakeholders.

  - Recruitment Committee – analyses periodically, at least once a year the structure, composition, number of members and results of the work of the Management Board and the Supervisory Board and makes recommendations for possible changes. Periodically reviews the Policy for selection, continuity and suitability assessment in "Bulgarian Development Bank" EAD and makes recommendations for a change in it.
- Internal audit – provides assurance to the senior management of the bank about the effectiveness of risk management, internal control and management;
- Management Board (MB) – is responsible for the general approach to risk management and approves strategies, principles and specific methods, techniques and procedures for risk management. The Management Board has the following ancillary bodies, which function as specialised committees:
  - Assets and Liabilities Management Committee (ALCO) - it is responsible for the strategic management of the assets and liabilities and liquidity, and for the management of the market risks, within its competence, according to internal regulations;
  - The Committee on Impairments and Provisions (CIP) controls the process of monitoring, evaluating and classifying financial instruments, establishing expected credit losses and forming impairment
  - Complaints and Signals Commission – a body for dealing with complaints and signals submitted by employees of the Group.
- Executive Directors and Members of the MB - exercise current operating control on maintaining and observing the specified limits for the particular types of risk and the application of the established procedures
- Risk Management Division - provides independent information, analysis and expert assessment of risks and provides the management body with a comprehensive overview of all risks. The Division carries out activities related to identification, management, measurement, risk control and reporting, stress tests, monitoring limits and reporting their implementation in accordance with established escalation procedures, as well as providing opinions on risk management proposals and solutions for their compatibility with the Bank's risk tolerance.
- Compliance Division - is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in the Bank to the changes that have occurred and/or are imminent. It provides information to the Management of the Bank through regular reports to the Management Board on compliance with the regulatory framework. If deficiencies are identified, it proposes measures to remedy any discrepancies admitted. It coordinates all internal normative documents in their development and updating.
- "Planning, Analysis and Regulations" Division – performs the reporting to the Management Board and BNB by preparing reports, key indicators, business plans and their implementation, including risks at operational, business, reporting and strategic level.
- Business units that take a risk apply the established rules and procedures for the management of risks, comply with the regulated restrictions regarding their activities and provide the necessary information for analysis, evaluation and informed decision-making.

Their activities are supported by the divisions "Legal", "Credit Administration", "Security", "Planning, Analysis and Regulations", "Classified Information", "Operations and Customer Service" and "Microfinancing and European Funds".

For the subsidiary National Guarantee Fund:

The main units directly responsible for risk management are the following:

- Management Board of BDB EAD (the parent company) - performs overall supervision on risk management;
- Board of Directors - carries out overall risk management supervision; being responsible for overall risk management approach and for approval of risk management strategies, principles and the specific methods, techniques and procedures;
- Committee on Provisions - analyses the guaranteed portfolios in terms of overall credit risk management for the total guaranteed portfolio, as well as of each guarantee deal and beneficiary of the guarantee itself;
- Risk and Monitoring Division - performs general monitoring with respect to the guaranteed portfolios by carrying out inspections (current and after a claim for payment has been filed) of the commercial banks regarding the fulfilment of the terms and conditions of their guarantee agreements at the level of both the separate client and individual portfolio. The Division also identifies, assesses, monitors and applies measures for limiting the impact of the major risks.

For the subsidiary BDB Leasing EAD:

The main units directly responsible for risk management are:

- Management Board of BDB (The Parent Company) as follows:
  - for exposure to one legal entity or for a total exposure to a group of related parties over BGN 1 million (in the absence of another exposure to the BDB Group);
  - in the presence of exposure to the BDB Group (but in the absence of exposure to BDB), regardless of its size;
- Board of Directors – adopts rules and procedures for risk management and controls risk factors. Decides on exposures up to BGN 1 million;
- Operational management (Member of the Board of Directors and Procurator or two members of the Board of Directors) – decide on exposures up to BGN 200 thousand;
- The competent authority of the BDB according to the rules of BDB - in case of an existing exposure to the bank, regardless of the amount of the debt of the group of related parties to the BDB Group.
- The Risk Division – the unit performs activities related to identification, management, measurement, control and reporting of risks, stress tests, monitoring limits and reporting their implementation in accordance with the approved procedures, as well as providing opinions on risk management proposals and compatibility solutions. Performs preliminary and subsequent analysis and rating of lessees, as well as initial and ongoing verification of risk assessment methods.

For the subsidiary "BDB Factoring" EAD:

The main units directly responsible for risk management are:

- Management Board of BDB (The Parent Company) – conducts general supervision of the management of risks;
- Board of Directors – adopts rules and procedures for risk management. Controls the risk factors for the Company's activities and makes decisions within the limits of its powers;
- Operational management (Executive Director) – organizes the activities for implementation of the policies, rules and procedures adopted by the Board of Directors. Creates a work organization that ensures compliance with good practices and principles for risk management and reduction, the four-eye principle in each company's activity and monitoring and compliance with the specified limits and levels of risk. Controls the compliance of the procedures used by the relevant employees for analysis, measurement and risk assessment with the internal normative documents adopted by the Board of Directors. Coordinates the activity and transactions in the company with the relevant units in BDB.
- Risk Division – performs preliminary and subsequent analysis of the counterparties to factoring transactions. Controls the input data necessary for the risk assessment according to an applicable method of reliability and sufficiency. Monitors and controls compliance with commitments and agreed terms, limits and deadlines. Carries out an initial and ongoing verification of risk assessment methods. If necessary, sends reminders. Periodically prepares reports and reports on the state of factoring transactions and the presence of early warning signals of potential difficulties on the same. Prepares and submits to the Board of Directors and report ongoing reports to the operational management in order to assess the risks in the company's activities, including compliance with limits.
- Operations Division – monitors and controls compliance with commitments and agreed terms, limits and deadlines. Performs initial and ongoing verification and control of the submitted transaction documents. Monitors and controls the state of factoring transactions and the presence of early warning signals of potential difficulties on the same. Prepare and submit to the Board of Directors and report periodic reports on an ongoing basis to the operational management.

For the subsidiary "BDB Microfinancing" EAD:

The main units directly responsible for risk management are:

- Management Board of BDB (The Parent Company) – conducts general supervision of the management of risks;
- Board of Directors – adopts rules and procedures for risk management. Controls the risk factors for the Company's activities and makes decisions within the limits of its powers. Also, analyses credit transactions worth more than BGN 100,000 in terms of credit risk management in their resolution;
- Credit Committee – currently monitors and analyses the Loan and Leasing Portfolio of the Company in terms of credit risk, including individual transactions;

- Credit Council – analyses credit and leasing transactions in terms of credit risk management in their resolution and/or renegotiation;
- Operational management (Executive Director and Procurator) – organizes the activities for implementation of the risk management rules adopted by the Board of Directors. Creates a work organization that ensures compliance with the specified limits and levels of risk. Controls the compliance of the procedures used by the relevant employees for risk analysis, measurement and assessment with the internal normative documents adopted by the Board of Directors;
- Risk Management Division - develops and implements a risk management system. It prepares and submits to the Board of Directors periodic reports in order to assess the risks in the activity, including compliance with limits and reports ongoingly to the operational management of the Company. It carries out an initial and ongoing verification of risk assessment methods. It controls the input data necessary for the risk assessment according to an applicable method of reliability and sufficiency.

For the subsidiary Capital Investments Fund AD:

The main units directly responsible for risk management are:

- Management Board of BDB EAD (the Parent company) – takes decisions for exposures to a single legal entity or for total exposure to group of related parties at the amount over BGN 1 million;
- Board of Directors – determines the risk appetite of CIF; adopts rules and procedures for risk management; controls the risk factors for the company's activity and takes decisions within its powers; approves prepared proposals related to investments in shares at the amount up to BGN 1 million;
- "Risk" Department – overall risk analysis and control regarding potential and signed transactions by CIF related to equity participations; responsible for complying with approved limits following the principle of diversification of the investment portfolio; participates in the decision process for selection and management of a certain investment as well as in the selection of a suitable option for exit from the investment; agrees the periodical revaluations of the Fund's investments.
- "Investments" and "Legal" Departments jointly perform regular monitoring on the portfolio investments preparing regular reports on the activity.

4 BANKING REGULATORS UNDER BULGARIAN AND EUROPEAN LEGISLATION

In accordance with the requirements of the laws and regulations governing banking activities in the country, BDB should observe restrictions related to certain ratios in its separate and consolidated financial statements. As at 31.12.2020, BDB has complied with all regulatory requirements of BNB and the Bulgarian legislation.

With effect from 1 October 2020, pursuant to ECB Decision (EU) 2020/1015 of 24 June 2020 establishing close cooperation between the European Central Bank and the Bulgarian National Bank (ECB/2020/30), the Bank remained under direct supervision by BNB in close cooperation with the ECB. The ECB's monitoring includes monitoring the implementation of the Common Supervisory Standards of the Single Supervisory Mechanism (SSM).

The main objectives of the SSM are to ensure the security and stability of the European banking system, to strengthen financial integration and stability, and to ensure consistent supervision. In 2020, the Bulgarian Lev joined the exchange rate mechanism II (ERM II) and together with the established close cooperation are a precondition for Bulgaria's future membership of the Eurozone.

With effect from 01 October 2020 Bulgaria joined the Single Restructuring Mechanism together with the Single Supervisory Mechanism and gave a start to close cooperation between the Bulgarian National Bank and ECB. Pursuant to those acts, the Single Resolution Board took over the supervision of planning of restructuring process with respect to the Bank. The European bank supervision as well as the Single Restructuring Mechanism are the main pillars of the banking union in the EU.

5 CONTROL ENVIRONMENT

The companies of the BDB Group follow a management philosophy and operational style subordinated to the principles of conservatism in the implementation of the strategic objectives of the Bank under the BDB Act.

The Bank applies the model of the three lines of defence within the risk management framework:

The first line of defence is the management control exercised by the heads of the operational units. Operational management identifies, assesses, controls and limit risks, ensuring that they operate in accordance with the objectives set in advance.

The second line of defence is the risk management and compliance function carried out by the Risk Management, Compliance and the Classified Information Divisions with regard to the prevention of money laundering and terrorist financing. In their activities, these divisions are supported by Analysis and Regulation and Legal Divisions. The second line of defence is independent from the first one in terms of organisation and carries out preventive and ongoing control.

The third line of defence is the internal audit function. Group Internal Audit carries out follow-up control and provides assurance to senior management with respect to the effectiveness of risk management, internal control and corporate governance, as well as the way in which the first and second lines achieve the risk management and control objectives. Group Internal Audit Division provides comprehensive assurance from the position of the highest level of independence in the organisation, through a direct subordination to the Supervisory Board.

Management assigns powers and responsibilities for the operating activity in line with a detailed internal normative set of documents, which are in conformity with the current national and European legislations, where in order to guarantee the relationships in accountancy and reporting, and various specialized committees, by hierarchy of authorities, were formed to the MB and SB of BDB.

The Bank has developed an internal set of documents, which includes policies and communications focused on ensuring that all employees understand the goals of the Bank, knows how individual actions are interconnected and contribute towards these goals, and who and how is reporting and what is their responsibility.

The Bank has established an information system, including business processes related to it, providing the necessary quality and control of the financial accountability and communication.

The Bank's audit committee monitors the financial reporting processes, the effectiveness of internal control systems and the effectiveness of risk management systems; moreover, it monitors the independent financial audit, conducts a review of the independence of the registered auditor, and makes recommendations for selecting a registered auditor.

6 MANAGEMENT OF BULGARIAN DEVELOPMENT BANK EAD

Bulgarian Development Bank EAD has a two-tier governance structure, which consists of a Supervisory Board and a Management Board.

As of 31 December 2020, the management bodies shall have the following composition:

6.1 SUPERVISORY BOARD OF BDB AS OF 31.12.2020 AND AS OF THE DATE OF APPROVAL OF THIS DECLARATION:

Valentin Lyubomirov Mihov – Chairman of the Supervisory Board Supervisory Board since 25.06.2021

Valentin Mihov holds master's degrees in International Economic Relations from the Moscow State Institute of International Relations and business administration from INSEAD. He has considerable experience in the management of banks. From 1999 to 2008 he was a consultant and junior partner at the consulting firm McKinsey and managed projects at the largest banks in Bulgaria, Germany and Russia. Between 2008 and 2017 he was in senior management positions at Commerzbank in Germany, Sberbank Russia, Sberbank Europe in Austria, as well as on the supervisory boards of their subsidiaries in a number of countries in Eastern Europe. Since 2018, he provides advisory services to banks and companies as a consultant or independent member of the Board of Directors.

Vasil Atanasov Shtonov – Deputy --Chairman of the Supervisory Board since 25.06.2021

Vasil Shtonov holds a master’s degree in Finance from the Massachusetts Institute of Technology in Cambridge. He has extensive experience banking, telecommunications and energy. He has experience in a U.S. small and medium-sized enterprise risk fund in Los Angeles, at the McKinsey consulting firm as a junior partner, where he was team leader for engagements for analysis and management of commercial banks, and at the Bear Stearns Investment Bank in New York. He was chief strategy and marketing officer of the cable company Blizoo. Caretaker Minister for Economy and Energy in 2014.

Stamen Stamenov Yanev – Member of the Supervisory Board since 26.08.2020

Stamen Yanev holds a master’s degree in Law from **University "St. Kliment Ohridski”.** He specializes in European and English law at ASSER College Europe in the Netherlands, University of Cambridge, University College London, European University Institute (Italy). Yanev is a lawyer specializing in the field of mergers and acquisitions, as well as in the field of investments. His professional path passes through the major international consulting companies, including the Bulgarian divisions of some of the four largest audit companies in the world. Since 2015 he has been Executive Director of the Bulgarian Investment Agency. Deputy Minister of Economy from 2020 to 2021.

Luchezar Dimitrov Borisov – Chairman of the Supervisory Board until 26.08.2020

Luchezar Borisov was born in 1978 in Samokov. Holds Master's degree in Macroeconomics and Accounting and Finance from the University of National and World Economy (UNWE). There are a number of specializations in Bulgaria and abroad, including entrepreneurship and venture capital at the American University in Bulgaria, project management in WIFI, Austria, Promotion of foreign direct investment in JICA, Japan, exchange-exchange trading and banks, at CITIBANK, etc. He has extensive experience in the field of corporate governance, has participated in the management of private and state-owned companies in the field of industry, energy and financial management. Mr Borisov is Chairman of the BDB SB until 26.08.2020.

Mitko Emilov Simeonov – Vice-President and Member of SB*

Mitko Simeonov holds a master's degree in Law from the New Bulgarian University and a Master of International Economic Relations from the University of National and World Economy. He also has a postgraduate qualification in financial management from the University of National and World Economy. He was deputy executive and executive director at the Agency for Privatization and Post-Privatization Control.

*Entry in the Commercial Register is forthcoming of the decision of the sole owner of the capital of BDB under protocol of 27.05.2021, by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank, is about to be registered in the Commercial Register.

Velina Ilieva Burska – Member of the SB*

Velina Burska holds a master's degree in Economics and Organization of Internal Trade from the University of National and World Economy. From 2002 to 2017 she was Director of the Post-Privatization Control Directorate at the Agency for Privatization and Post-Privatization Control.

*Entry in the Commercial Register is forthcoming of the decision of the sole owner of the capital of BDB under protocol of 27.05.2021, by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank, is about to be registered in the Commercial Register.

In the exercise of its powers, the Supervisory Board is assisted by specialised committees as follows:

- Risk Management Committee – advises the Supervisory Board and the Governing Council on the overall current and future risk and risk appetite strategy and supports the control of its implementation by senior management staff.
- Audit Committee – conducts monitoring of financial reporting processes, monitoring the effectiveness of internal control systems, monitoring the effectiveness of risk management systems, monitoring of internal audit activities and the implementation of the audit plan, monitoring of the independent financial audit, making recommendations for the selection of a registered auditor, etc.
- Remuneration Committee – prepares and proposes remuneration decisions, taking into account the impact on risk and its management at the bank, the long-term interests of shareholders, investors and other stakeholders.
- Selection Committee – analyzes the structure, composition, number of members and results of the work of the Management Board and the Supervisory Board, reviews the Policy for selection, continuity and evaluation of suitability in "Bulgarian Development Bank" EAD, etc.

Member	Risk Management Committee as at 31.12.2020	Selection Committee as at 31.12.2020	Remuneration Committee as at 31.12.2020
Stamen Stamenov Yanev	Member	Chairman	Member
Mitko Emilov Simeonov	Chairman	Member	Member
Velina Ilieva Burska	Member	Member	Chairperson

Member	Risk Management Committee (At the date of approval, this declaration):	Selection Committee (At the date of approval, this declaration):	Remuneration Committee (At the date of approval, this declaration):
Valentin Lyubomirov Mihov	Member	Chairman	Member
Vasil Atanasov Shtonov	Member	Member	Chairman
Stamen Stamenov Yanev	Chairman	Member	Member

6.2 AUDIT COMMITTEE AS OF 31 DECEMBER 2020 AND AS OF THE DATE OF APPROVAL OF THIS DECLARATION:

The Audit Committee consists of the following members:

As at the date of approval of this report the Audit Committee consists of the following members:

Dragomir Ivanov Vuchev – Chairman of the Audit Committee since 25 May 2021.

Vassil Atanasov Shtonov – Member of the Audit Committee since 25 May 2021.

Vassil Shtonov holds a master's degree in Finance from the Massachusetts Institute of Technology in Cambridge. He has extensive experience in banking, telecommunications and energy. He has experience in a U.S. fund for risk investments in small and medium-sized enterprises in Los Angeles, at the McKinsey consulting firm as a junior partner, where he led teams of analysis and management of commercial banks, and at the Bear Stearns Investment Bank in New York. He was Chief Strategy and Marketing Officer of the cable company Blizoo. Caretaker Minister for Economy and Energy in 2014.

Gergana Stoyanova Moskova – Member of the Audit Committee since 7 July 2021.

By decision of the Minister of Economy under a Protocol dated 25 May 2021, exercising the rights of the sole owner of the capital of BDB, Krassimir Vasilev Yordanov, Kalina Ivanova Mavrova and Rositsa Nikolova Grigorova were dismissed from the Audit Committee. They were replaced by Dragomir Ivanov Vuchev, Valentin Lyubomirov Mihov and Vassil Atanasov Shtonov. By a decision of the Minister of Economy under a Protocol dated 22 June 2021, exercising the rights of the sole owner of the capital of BDB, Mr. Valentin Lyubomirov Mihov was dismissed from the Audit Committee and by a decision of 7 July 2021 Mrs. Gergana Stoyanova Moskova was appointed a member of the Audit Committee.

On 16 September 2021, the Minister of Economy approved a new Statute of the Audit Committee.

As at the end of 2020 the Audit Committee consists of the following members:

Krassimir Vasilev Yordanov – Chairman of the Audit Committee until 25 May 2021;

Krassimir Yordanov has a master's degree in accounting and financial control from the SA "D. A. Tsenov – Svishtov" and a master's degree in Law from the University "St. St. Cyril and Methodius". Mr. Yordanov also has a master's degree in speech and acting in public communications from NATFIZ "Kr. Sarafov", Sofia. Krassimir Vasilev Yordanov holds a PhD in economics, was an associate professor at New Bulgarian University between 2001 and 2015 and held the position of Chief Auditor at the Court of Auditors from 2001 to 2018. At present he is a professor at the International Business School – Blagoevgrad and associate professor at department Financial Control at the University of National and World Economy.

Rositsa Nikolova Grigorova – Member of the Audit Committee until 25 May 2021;

Rositsa Grigorova holds a master's degree in Economics and Finance from the University of National and World Economy and a master's degree in Automation Engineering from the Higher Chemical Technology Institute, Sofia. In her professional experience extending over 25 years, Mrs. Grigorova has held the following positions: lab technician at the Higher Chemical Technology Institute, economist in the Financial and Accounting Department of the Ministry of Defence, expert "Material and Technical Provision" at Military Construction Engineering EOOD, Head of Youth Programs and Projects Sector in the Directorate "Financial and Economic Activities Property Management" at the State Agency for Youth and Sports and State Expert, Junior Rank II in the Budget Department at the Ministry of Agriculture and Food. Rositsa Nikolova Grigorova has held senior positions as Head of budget department at the Ministry of Labour and Social Policy, Head of Accounting Department at the Finance and Property Management Directorate at the Ministry of Regional Development and Public Works, as well as deputy financial director of BNT. She is currently Finance Director and Director of the Administration Directorate at the Bulgarian National Television.

Kalina Ivanova Mavrova – Member of the Audit Committee until 25 May 2021;

Kalina Mavrova holds a master's degree in European Business and Finance from Nottingham Trent University, United Kingdom and has a bachelor's degree in International Economic Relations from the University of National and World Economy. Ms. Mavrova's professional experience began at the Bulgarian National Bank, where she was an intern and held the positions of expert in international communications and expert in public relations. Kalina Ivanova Mavrova continues her professional career at UniCredit Bulbank - Sofia, where she works as a product development expert and expert in marketing development. Mrs. Mavrova participated mainly in the project "Creation of an internal online portal for financial and economic analysis" during her internship at UniCredit S.P.A. – Bologna, Italy.

6.3 Management Board of BDB in 2020, as of 31 December 2020 and as of the date of this declaration:

As at the date of approval of this report the Management Board consisted of the following members:

Krum Georgiev Georgiev – Chairman of the MB since 30 June 2021

Krum Georgiev has a bachelor's degree in business management and a master's degree in Finance from the University of National and World Economy. His professional career includes 11 years of experience in banking and accumulated solid knowledge in the field of financial analysis and corporate governance. He was head of Project Finance Department at UBB, responsible for increasing the credit portfolio, monitoring the quality of the loan portfolio and structuring new transactions. He has also successfully developed as an asset manager in the RES sector.

Vladimir Rashkov Gueorguiev – Member of the MB and Executive Director since 30 June 2021

Vladimir Gueorguiev has more than 11 years of experience in the banking system, he has gone through all levels of development, with years of management experience as head of directorates and managements in several major commercial banks, as well as a member of the Management Board and Executive Director of banking institutions. He has proven experience in the field of international banking activity and liquidity, international credit and correspondent relations, as well as in the field of rescuing banks with poor credit portfolios, dealer operations, documentary operations, liquidity, corporate finance and collection of problem loans. He participated in the consolidation teams of two major Bulgarian banks as responsible for the reunification in the field of international credit and correspondent relations and liquidity. Vladimir Gueorguiev specialized in finance and banking in Germany, Austria, Belgium, Luxembourg. He has more than 19 years of experience in the financial management of Bulgarian and foreign investments in different sectors of the economy. He organized Primary Public Offering and Bond Financing through BSE for several corporate structures.

Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director since 30 June 2021

Tsanko Arabadzhiev is a financial manager with 16 years of experience and an established presence in the banking, insurance and private sectors. His professional career began at UBB, where in the period 2005-2013 he underwent various levels of development in the field of retail banking, management of collective investment schemes and lending to small and medium-sized enterprises. In 2013 he joined the insurance company "UNICA", where for 5 years he was Director of Investment Management. His main responsibilities are related to the overall management of the company's cash flows, the preparation and implementation of asset management strategies so as to achieve optimal returns within the investment mandate. In addition, he led various projects related to the introduction of new products, costs and processes optimization, etc. Mr. Arabadzhiev's career continued as Chief Financial Officer of Nord Holding, and since 2019 he is part of the team of Pension Insurance Company Doverie, where he is responsible for the internal control of its investment activities and managed funds. Tsanko Arabadzhiev graduated from the University of International Economic Relations at the University of National and World Economy and holds a master's degree in Finance.

Jivko Ivanov Todorov – Member of the Management Board and Executive Director since 14 April 2020

Jivko Todorov holds a master's degree in Accounting and Control from the University of National and World Economy, as well as an Executive MBA from Hult International Business School in London. His professional career began in 1997 at ING Bank – Sofia Branch, where he held successive positions as operational accountant, financial controller, Chief Financial Officer and Member of the Management Board for Bulgaria. In the period 2012-2014 he was Chief Financial Officer and Member of the Management Board of Alfa Bank – Bulgaria Branch.

From 2014 to March 2020, he was Chief Financial Officer and Member of the Management Board of First Investment Bank, where he was responsible for the resources Finance, Accounting, Investor Relations, Treasury and Financial Institutions, Correspondent Relations. Under his leadership, an internal transfer pricing policy and cost allocation model, as well as a model for calculating profitability at business line level, products and customers, was developed and implemented. In April 2020, Mr. Todorov was elected Executive Director and Member of the Management Board of the Bulgarian Development Bank.

In 2020 and as at 31 December 2020, the Management Board consisted of the following members:

Stoyan Todorov Mavrodiev – Chairman of the MB and Chief Executive Director until 22 April 2020.

Stoyan Todorov Mavrodiev holds a master's degree in Law from Sofia University "St. Kliment Ohridski" and a master's degree in Finance from the University of National and World Economy. He attended a series of courses at the International Tax Academy in Amsterdam and has also trained in the US Department of State's International Program of Leaders. His career started as a legal, tax and business consultant at PriceWaterhouseCoopers. In the period 1996-2006, he worked as a financial and legal consultant in the United Consulting, which he also managed. From 2009 to 2010 he is Deputy Chairman of the Commission for Economic Policy, Energy and Tourism and member of the Budget and Finance Committee of the 41st National Assembly. For 6 years (2010-2016), he was Chairman of the Financial Supervision Commission (FSC), which oversees and regulates the financial system and the non-banking financial sector in Bulgaria. From 2010 to 2016 he was a member of the Advisory Financial Stability Board (AFSF). In this period, he was also a member of a number of international organizations, including ESMA, EIOPA, ESRB, IOSCO, IAIS and IOPS. Mr. Mavrodiev was CEO and Member of the MB of the Bank until 22 April 2020.

Rumen Dimitrov Mitrov – Vice Chairman of the MB and Executive Director until 30 April 2020

Rumen Dimitrov Mitrov holds a master's degree in Accounting and Control from the University of National and World Economy. His professional experience began in 1994 at NRA Sofia. In the period 2000-2003 he was the manager of the petroleum products import company "GMN GAZ", and from 2003 to 2011 he was engaged in financial and tax consultancy as manager of the two accounting companies "Eurotim Bulgaria" and "RM Consult". From 2011 to 2016, he was consecutively appointed Director of "Investment Activity Supervision", "Regulatory Policy", and "Coordination, Analysis and Policy of Supervisory and Supervision Activities" divisions in the Financial Supervision Commission (FSC). Mr. Mitrov was an Executive Director and Member of the MB of the Bank until 30 April 2020.

Nikolay Dimitrov Dimitrov – Member of the Management Board and Executive Director

Nikolay Dimitrov holds a Ph.D. in Economics from the University of National and World Economy (UNWE) with specializations "International Economic Relations" and "Finance". Between 2007 and 2015, he completed a number of additional courses and qualifications at the Judge Business School at Cambridge University (UK), the Investment Banking Institute (USA), among others. His banking career started at the end of 2003 and went through Raiffeisen Bank and United Bulgarian Bank. He joined the Bulgarian Development Bank in July 2011, in January 2012 become Head of the Investment Banking and Project Finance Department, and since April 2013 he is Head of the Corporate Banking Division. Alongside, he has been an associated professor at the Department of International Economic Relations at UNWE over the period 2010 – 2017.

Panayot Ivov Filipov – Member of the Management Board and Executive Director since 30 April 2020

Panayot Filipov graduated from the University of National and World Economy with a master's degree in economics and has a specialization in stock markets at the University of Delaware in Bulgaria. In 1998 he was announced for Broker No 1 on the Bulgarian Stock Exchange with the highest number of trades of the year. He entered the banking sphere in 2001, and until 2008 he held positions in Economic and Investment Bank, DZI Bank, where he was also a member of the Management Board, as well as in Piraeus Bank Bulgaria. In 2012 he took over management functions at Municipal Bank. In 2014, Mr. Panayot Filipov was appointed a member of the Board of Directors of OZK Insurance, and in 2017 he became Executive Director and Member of the Management Board of the Bulgarian Export Insurance Agency (BAEZ). In April 2020, Mr. Filipov was elected Executive Director and Member of the Management Board of the Bulgarian Development Bank EAD.

Jivko Ivanov Todorov – Member of the Management Board and Executive Director since 14 April 2020

Jivko Todorov holds a master's degree in Accounting and Control from the University of National and World Economy, as well as an Executive MBA from Hult International Business School in London. His professional career began in 1997 at ING Bank – Sofia Branch, where he held successive positions as operational accountant, financial controller, Chief Financial Officer and Member of the Management Board for Bulgaria. In the period 2012-2014 he was Chief Financial Officer and Member of the Management Board of Alfa Bank – Bulgaria Branch. From 2014 to March 2020, he was Chief Financial Officer and Member of the Management Board of First Investment Bank, where he was responsible for the resources Finance, Accounting, Investor Relations, Treasury and Financial Institutions, Correspondent Relations. Under his leadership, an internal transfer pricing policy and cost allocation model, as well as a model for calculating profitability at business line level, products and customers, was developed and implemented. In April 2020, Mr. Todorov was elected Executive Director and Member of the Management Board of the Bulgarian Development Bank.

Bulgarian Development Bank EAD is represented jointly by two executive directors or at least one executive director and a procurator. As of the date of approval of this report, the Bank does not have a procurator.

In 2020, there were no changes in the basic principles of governance in BDB Group.

6.4 Committees of the Management Board

The specialized committees functioning as supporting bodies of the Management Board are as follows:

- Committee on Assets and Liabilities Management (ALCO) – its main functions include strategic management of assets, liabilities and liquidity, as well as the management of market risks (within its competencies) defined in separate internal regulations;
- Committee on Impairment and Provisions (CIP) – controls the process of monitoring, assessment and classification of financial instruments, determination of expected credit losses and formation of impairments in accordance with the applicable financial reporting standards and internal regulations.
- Commission on Complaints and Signals (CCS) – processes complaints and signals filed by employees of the Group.

As at 31 December 2020, the MB Committees consist of the following members:

Committees of the MB	Asset and Liability Management Committee	Commission on Complaints and Signals	Committee on Impairments and Provisions
Jivko Ivanov Todorov	Member		
Panayot Ivov Filipov	Member		
Nikolay Dimitrov	Chairman		
Head of Risk Department	Member	Member	Member
Head of Legal Department		Member	
Head of Security Department		Member	
Head of the Planning, Analysis and Regulations Department	Member	Member	Chairman
Head of the Group Internal Audit Department		Member	
Head of Treasury Department	Member		
Head of Compliance Department		Chairman	
Head of the International Financial institutions and EU Funds Department	Member		
Head of Corporate Banking Department			Member
Head of Monitoring and Financial Instruments Department	Member		
Head of Investment Banking and Project Financing Department			Member
Head of Problem Loans Department			Member

* Chairmen are elected by the members for a one-year term.

As at the date of approval of this report the committees consist of the following members:

Committees of the MB	Asset and Liability Management Committee	Commission on Complaints and Signals	Committee on Impairments and Provisions
Tsanko Rumenov Arabadzhiev	Chairman		Member
Krum Georgiev Georgiev	Member		Chairman
Vladimir Rashkov Gueorguiev	Member		
Jivko Ivanov Todorov	Member		
Head of Risk Department	Member	Member	Member
Head of Legal Department		Member	
Head of Security Department		Member	
Head of Planning, Analysis and Regulations Department	Member	Member	Member
Head of Group Internal Audit Department		Member	
Head of Treasury Department	Member		
Head of Compliance Department		Chairman	
Head of the International Financial institutions and EU Funds Department	Member		
Head of Corporate Banking Department			Member
Head of Financial Instruments Department	Member		
Head of Problem Loans Department			Member

* Chairpersons are elected by the members of the respective committee for a one-year term.

6.5 Contracts with related parties involved in the management and participation of members of the MB and SB of the bank in other companies

There are no signed contracts pursuant to Art. 240b of the Companies Act between the members of the SB and MB or persons related to them, on one hand, and the Bank, on the other, which fall beyond the ordinary course of business, or which significantly deviate from the market conditions.

In 2020, there were no concluded deals between BDB and its related parties, or offers for signing such deals, which fall outside the scope of the ordinary activity, or which significantly deviate from the market conditions, to which BDB or its subsidiary is a party.

There are no material contracts concluded, which lead to action, are amended, or terminated, due to change in the control of or over the Bank, or as a result of a compulsory public procurement procedure. As far as there is a legal restriction regarding the shareholding structure of BDB, no such contracts are expected to be concluded.

There is no practice of concluding agreements among the BDB Group companies and their management bodies and/or employees for the payment of compensation upon resignation or dismissal without legal grounds thereof, or upon terminating the legal employment relationships by reasons related to tender offers.

Participation as defined in art. 247, para. 2, item 4 of the Commercial Act of members of the SB and MB in commercial companies as general partners, or holding more than 25 % of the capital of another company, as well as their participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows (as of 31 December 2020):

Members of the Supervisory and Management Boards

I. With respect to members of the SB of the Bank:

Luchezar Dimitrov Borisov – Chairman of BDB Supervisory Board until 26 August 2020. Until 29 July 2020 Mr. Borisov participated in the management of the following companies:

- Energy Efficiency and Renewable Sources Fund, UIC: 131330278, member of the MB of the company;
- State Enterprise "Management and Administration of Dams", UIC: 205756975.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

Stamen Stamenov Yanev – Chairman of the SB since 26 August 2020. Participation in the management of trade companies:

- State Enterprise "Management and Administration of Dams", UIC: 205756975, Member of the Management Board;
- Invest Bulgaria Agency, UIC: 831910252 – Executive Director;
- BDB Microfinancing EAD, UIC: 201390740 – Member of the Board of Directors until 29 May 2020.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

Mitko Emilov Simeonov – no participation in the capital or management of trade companies or cooperatives.

Velina Ilieva Burska – no participation in the capital or management of trade companies or cooperatives.

Vassil Atanasov Shtonov – Member of the Supervisory Board of Bulgarian Development Bank EAD

Participation in the management of trade companies:

- AMC Directors EOOD, UIC: 205674040 – Managing Director;
- Re-life Clothing, UIC: 206181417 – Managing Director;

Participation in the capital of trade companies or cooperatives, including as general partner – none.

Valentin Lyubomirov Mihov, Chairman of the SB of the Bulgarian Development Bank EAD

Participation in the management of trade companies:

- Valor Advisors EOOD, UIC: 204708828 – Managing Director;
- First Ukrainian International Bank – Member of the Supervisory Board;

Participation in the capital of trade companies:

- Valor Advisors EOOD, UIC: 204708828 – sole owner of the capital;

- Action TS OOD, UIC: 030222081 – partner who is not involved in the management of or control on the company.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

II. With respect to members of the MB of the Bank:

Stoyan Todorov Mavrodiev – Chief Executive Director, Chairman of the MB of BDB until 22 April 2020.

Participation in the capital of trade companies:

- National Guarantee Fund EAD, UIC: 200321435, subsidiary of the Bank, Chairman of the Board of Directors until 20 May 2020;
- Capital Investments Fund AD, UIC: 205322014, subsidiary of the Bank, Chairman of the Board of Directors and Executive Director until 20 May 2020;
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Chairman of the Board of Directors and Executive Director until 20 May 2020;
- BDB Factoring EAD, UIC 205566082 a subsidiary of the Bank, as Chairman of the Board of Directors and Executive Director until 20 May 2020;

Participation in the capital of trade companies:

- Real Estate Ventures EOOD, UIC: 131160908, sole owner;
- Genesis Advisory Services EOOD, UIC 206148068, sole owner.

Rumen Dimitrov Mitrov – Executive Director, Vice Chairman of the MB of BDB until 30 April 2020.

Participation in the capital of trade companies:

- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Vice Chairman of the Board of Directors until 20 May 2020;
- Capital Investments Fund AD, UIC: 205322014, subsidiary of the Bank, Vice Chairman of the Board of Directors until 20 May;
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Vice Chairman of the Board of Directors until 20 May 2020;
- BDB Factoring EAD, UIC 205566082 subsidiary of the Bank, Vice Chairman of the Board of Directors until 20 May 2020;

Participation in the capital of trade companies or cooperatives, including as general partner – none.

Nikolay Dimitrov Dimitrov – Executive Director and Member of the MB of BDB.

Participation in the capital of trade companies:

- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Vice Chairman of the Board of Directors until 20 May 2020;
- Capital Investments Fund AD, UIC: 205322014, subsidiary of the Bank, Member of the Board of Directors.
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Member of the Board of Directors until 20 May 2020;

- BDB Factoring EAD, UIC 205566082 subsidiary of the Bank, Member of the Board of Directors until 3 June 2020.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

Panayot Ivov Filipov – Executive Director and Member of the MB of BDB since 30 April 2020

Participation in the capital of trade companies:

- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Chairman of the Board of Directors since 20 May 2020;
- BDB Factoring EAD, UIC 205566082 subsidiary of the Bank, Chairman of the Board of Directors since 20 May 2020.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

Jivko Ivanov Todorov – Executive Director and Member of the MB of BDB since 14 April 2020.

Participation in the management of trade companies:

- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Chairman of the Board of Directors since 20 May 2020;
- National Guarantee Fund EAD, UIC: 200321435, subsidiary of the Bank, Chairman of the Board of Directors since 20 May 2020;
- First Investment Bank AD, UIC: 831094393, credit institution, Member of the Management Board until 22 April 2020.

Vladimir Rashkov Gueorguiev – Executive Director and Member of the MB of BDB

Participation in the capital of trade companies, including as procurator:

- BDB Microfinancing EAD, UIC: 201390740, Chairman of the Board of Directors.

Participation in the capital of trade companies or cooperatives.

- Debtnet EAD, UIC: 200817666 – sole owner of the capital;
- Roza Organica OOD, UIC: 131389390 – partner.

Krum Georgiev Georgiev – Chairman of the MB of BDB

Participation in the capital of trade companies:

- BDB Leasing EAD, UIC: 205565411 – Member of the Board of Directors;
- BDB Factoring EAD, UIC: 205566082 – Member of the Board of Directors.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

Tsanko Rumenov Arabadzhiev – Executive Director and Member of the MB of BDB

Participation in the management of trade companies:

- Capital Investments Fund AD, UIC: 205322014 – Member of the Board of Directors;
- BDB Factoring EAD, UIC: 205566082 – Member of the Board of Directors.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

Information about the full amount of the compensations, rewards and/or benefits for the members of the Management and control bodies of the Bank for the fiscal accounting year, paid by the issuer and its subsidiaries is disclosed in the notes to the financial statements.

7 MANAGEMENT OF SUBSIDIARY COMPANIES

As of 31 December 2020, BDB is the equity owner of the following subsidiaries:

Sole owner of:

- National Guarantee Fund EAD, UIC: 200321435;
- BDB Microfinancing EAD, UIC: 201390740;
- BDB Leasing EAD, UIC: 205565411;
- BDB Factoring EAD, UIC: 205566082;
- Trade Center Maritsa EOOD, UIC: 115619162.

Participates jointly with NGF AD in the capital of Capital Investments Fund AD, UIC: 205322014, as the registered capital is allocated as follows (BDB holds 84.62% of the company's capital and NGF holds 15.38%).

Exercises control over Cohoferm OOD [6], UIC 201807408, by virtue of exercised rights under pledge of commercial enterprise.

7.1 NATIONAL GUARANTEE FUND EAD

NGF EAD has a one-tier management system – Board of Directors, consisting of three members. As at 31 December 2020, and as at the date of approval this declaration the Board of Directors consists of the following members:

Board of Directors (as at 31 December 2020):

- **Todor Lyudmilov Todorov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;
- **Jivko Ivanov Todorov** – Chairman of the Board of Directors since 20 May 2020;
- **Zaharina Damianova Todorova** – Member of the Board of Directors since 20 May 2020.

Board of Directors as at the date of approval of this declaration:

- **Jivko Ivanov Todorov** – Chairman since 20 May 2020;
- **Todor Lyudmilov Todorov** – Executive Director and Vice Chairman since 20 May 2020.
- **Zaharina Damianova Todorova** – Member of the Board of Directors since 20 May 2020;
- **Deyan Petrov Kalapchiev** – Member of the Board of Directors since 27 September 2021.

The company is represented by either two of the members of the Board of Directors, jointly.

The members of the BD of NGF EAD do not hold any shares of the Fund, nor do they have any special rights on the acquisition of such shares.

[6] Cohoferm OOD is not part of the strategic business model of BDB Financial Group as well.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD of NGF or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art.247, Para.2, item 4 of the Commerce Act, of members of the BD of NGF in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows (as of 31 December 2020):

Todor Lyudmilov Todorov – Executive Director and Vice Chairman of the NGF Board of Directors since 20 May 2020.

Participation in the management of trade companies:

- Glenridge Capital EOOD, UIC: 205578775, Managing Director

Participation in the capital of trade companies:

- Glenridge Capital EOOD, UIC: 205578775, sole owner of the capital
- Hobo Bulgaria OOD, UIC: 205420451, partner - 15%

Jivko Ivanov Todorov – Chairman of the Board of Directors of NGF since 20 May 2020

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, Executive Director and Member of the Management Board since 14 April 2020;
- National Guarantee Fund EAD, UIC: 200321435, subsidiary of the Bank, Chairman of the Board of Directors since 20 May 2020;
- First Investment Bank AD, UIC: 831094393, credit institution, Member of the Management Board until 22 April 2020.

Participation in the capital of trade companies – none.

Zaharina Damianova Todorova – Member of the Board of Directors of NGF since 20 May 2020

Participation in the management and capital of other trade companies: none.

Deyan Petrov Kalapchiev - Member of the Board of Directors of NGF since 27 September 2021

Participation in the management of trade companies:

- Capital alliance EOOD, UIC: 175172627, Managing Director;
- G&L Properties OOD, UIC: 175172659, representative.

Participation in the capital of trade companies:

- Capital alliance EOOD, UIC: 175172627, sole owner of the capital;
- G&L Properties OOD, UIC: 175172659, partner holding a 50% share of the capital.

7.2 BDB MICROFINANCING EAD (former Microfinancing Institution Jobs EAD)

BDB Microfinancing EAD has a one-tier management system - Board of Directors, consisting of three to five members. As at the 31 December 2020 and as at the date of approval this declaration the Board of Directors consists of the following members:

Board of Directors (as at 31 December 2020):

- **Panayot Ivov** Filipov – Chairman of the Board of Directors from 20 May 2020 to 30 August 2021;
- **Ivana Borisova Tsaneva** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;
- **Angelina Georgieva Angelova** – Member of the Board of Directors from 20 May 2020 to 30 August 2021;
- **Iliya Radkov Komitov** – Member of the Board of Directors since 28 August 2020.

Board of Directors as at the date of approval of this declaration:

- **Vladimir Rashkov Gueorguiev** – Chairman of the Board of Directors since 23 August 2021;
- **Ivana Borisova Tsaneva** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;
- **Iliya Radkov Komitov** – Member of the Board of Directors since 28 August 2020;
- **Boyan Stefanov Byanov** – Member of the Board of Directors since 30 August 2021.

The Company is represented by either two of the members of the Board of Directors, jointly. The Procurator may represent the Company only jointly with either one of the members of the Board of Directors of the respective company.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art.247, Para.2, item 4 of the Commerce Act, of members of the BD of BDB Microfinancing EAD in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

Vladimir Rashkov Gueorguiev – Chairman of the Board of Directors since 23 August 2021;

Participation in the management of trade companies, including as procurator:

- Bulgarian Development Bank EAD, UIC: 121856059 – Executive Director and Member of the management Board

Participation in the capital of trade companies or cooperatives:

- Debtnet EAD, UIC: 200817666 – sole owner of the capital;
- Roza Organica OOD, UIC: 131389390 – partner

Boyan Stefanov Byanov – Member of the Board of Directors since 30 August 2021.

Participation in the capital or management of trade companies – none.

Panayot Ivov Filipov – Chairman of the Board of Directors from 20 May 2020 to 30 August 2021;

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Executive Director and Member of the Management Board since 30 April 2020
- BDB Factoring EAD, UIC: 205566082, subsidiary of the Bank, Chairman of the Board of Directors since 20 May 2020

Participation in the capital of trade companies – none.

Ivana Borisova Tsaneva – Executive Director and Vice Chairman of the Board of Directors

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

Angelina Georgieva Angelova – Member of the Board of Directors from 20 May 2020 to 30 August 2021;

Participation in the management of trade companies:

- AFE EOOD, UIC: 204261633, Managing Director

Participation in the capital of trade companies:

- CODE Broadcasting Group (TRANSTROY AMB) EOOD, UIC: 205276652, sole owner of the capital until 16 April 2021.

Iliya Radkov Komitov – Member of the Board of Directors since 28 August 2020.

Participation in the management of trade companies:

- Brand Boys OOD, UIC: 203557782, Managing Director;
- SENMON, UIC: 202994314, Managing Director.

Participation in the capital of trade companies:

- Brand Boys OOD, UIC: 203557782, partner;
- SENMON EOOD, UIC: 202994314, sole owner of the capital.

7.3 CAPITAL INVESTMENTS FUND AD

Bulgarian Development Bank EAD holds 84.62% of the capital of Capital Investments Fund AD, UIC: 205322014, and 15.38 % of the Company's capital are owned by the National Guarantee Fund EAD.

CIF AD has a one-tier management system - Board of Directors, consisting of three members. As at the end of 2020 and as at the date of approval of this declaration the Board of Directors consists of the following members.

Board of Directors (as of 31 December 2020):

- **Nikolay Dimitrov** – Chairman of the Board of Directors and Executive Director from 20 May 2020 to 20 August 2021;
- **Tihomir Gochev Chemshirov** – Vice Chairman of the Board of Directors from 20 May 2020 to 14 September 2021;
- **Tsvetomir Georgiev Tsanov** – Member of the Board of Directors since 20 May 2020.

Board of Directors as at the date of approval of this declaration:

- **Tsanko Rumenov Arabadzhiev** - Chairman of the Board of Directors since 20 August 2021;
- **Stefan Stefanov Tamnev** – Executive Director and Vice Chairman of the Board of Directors since 20 August 2021;
- **Tsvetomir Georgiev Tsanov** - Member of the Board of Directors since 20 May 2020;
- **Krasimir Tanev Atanasov** – Member of the Board of Directors since 20 August 2021.

Since 21 August 2020 the company has an authorized procurator – Angel Penev Hadzhiev.

The Company is represented by either two of the members of the Board of Directors and the procurator. The Procurator may represent the Company only jointly with either one of the members of the Board of Directors of CIF.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art.247, Para.2, item 4 of the Commerce Act, of members of the BD of Capital Investments Fund AD in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

Tsanko Rumenov Arabadzhiev - Chairman of the Board of Directors since 20 August 2021;

Participation in the management of trade companies:

- Bulgarian Development Bank EAD – Executive Director and Member of the Management Board;
- BDB Factoring EAD, UIC: 205566082 – Member of the Board of Directors.

Participation in the capital of trade companies or cooperatives – none.

Stefan Stefanov Tamnev – Executive Director and Vice Chairman of the Board of Directors since 20 August 2021;

Participation in the management of trade companies: none.

Participation in the capital of trade companies or cooperatives:

- RM FRUIT OOD, UIC 206485936, partner holding a 10% share.

Krasimir Tanev Atanasov – Member of the Board of Directors since 20 August 2021

Participation in the management of trade companies:

- Omega Trading Partners OOD, UIC: 175048191 – Managing Director;
- Primus EOOD, UIC: 175080997 – Managing Director.

Participation in the capital of trade companies or cooperatives:

- Omega Trading Partners OOD, UIC: 175048191 – partner holding a 50% share;
- Primus EOOD, UIC: 175080997 – sole owner of the capital.

Nikolay Dimitrov Dimitrov – Chairman of the Board of Directors and Executive Director from 20 May 2020 to 20 August 2021;

Participation in the management of trade companies:

- Bulgarian Development Bank AD, UIC: 121856059, Executive Director and Member of the MB of the Bank;
- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Vice Chairman of the Board of Directors until 20 May 2020;
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Member of the Board of Directors until 20 May 2020;
- BDB Factoring EAD, UIC: 205566082, subsidiary of the Bank, Member of the Board of Directors until 3 June 2020.

Participation in the capital of trade companies – none.

Tihomir Gochev Chemshirov – Vice Chairman of the Board of Directors from 20 May 2020 to 14 September 2021;

Participation in the management of trade companies: none.

Participation in the capital of trade companies – none.

Tsvetomir Georgiev Tsanov – Member of the company's Board of Directors

Participation in the management of trade companies:

- TMI BULGARIA EOOD, UIC: 175330187 - Managing Director
- M2 PROM AD, UIC: 206194254 - Member of the Board of Directors

Participation in the capital of trade companies:

- TMI BULGARIA EOOD, UIC: 175330187 – sole owner of the capital.

7.4 BDB LEASING EAD

BDB Leasing has a one-tier management system - Board of Directors, consisting of three to five members. As at the end of 2020 and as at the date of approval of this declaration the Board of Directors consists of the following members:

<u>Board of Directors (as at 31 December 2020):</u>

- **Jivko Ivanov Todorov** – Chairman of the Board of Directors from 20 May 2020 to 23 August 2021;
- **Emil Valkanov Valkanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;
- **Antonia Hristoforova Dobreva** – Member of the Board of Directors since 20 May 2020.

The company has an authorized procurator – **Ivaylo Kirilov Popov** since 1 June 2020.

<u>Board of Directors as at the date of approval of this declaration:</u>

- **Krum Georgiev Georgiev** since 23 August 2021 – Chairman of the Board of Directors;
- **Emil Valkanov Valkanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;
- **Antonia Hristoforova Dobreva** – Member of the Board of Directors since 20 May 2020;

The company has an authorized procurator – **Ivaylo Kirilov Popov** since 1 June 2020.

The Company is represented by either two of the members of the Board of Directors, jointly. The Procurator may represent the Company only jointly with either one of the members of the Board of Directors of BDB Leasing.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art.247, Para.2, item 4 of the Commerce Act, of members of the BD of BDB Leasing EAD in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

Krum Georgiev Georgiev – Chairman of the Board of Directors since 23 August 2021.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD - Chairman of the Management Board
- BDB Factoring EAD, UIC: 205566082 – Member of the Board of Directors

Participation in the capital of trade companies or cooperatives – none.

Jivko Ivanov Todorov – Chairman of the Board of Directors from 20 May 2020 to 23 August 2021

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059, Executive Director and Member of the Management Board since 14 April 2020;
- National Guarantee Fund EAD, UIC: 200321435, Chairman of the Board of Directors from 20 May 2020;

- First Investment Bank AD, UIC: 831094393, credit institution, Member of the Management Board until 22 April 2020.

Participation in the capital of trade companies – none.

Emil Valkanov Valkanov – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020.

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

Antonia Hristoforova Dobreva – Member of the Board of Directors since 20 May 2021.

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

Ivaylo Kirilov Popov – procurator.

Participation in the management of trade companies – none.

Participation in the capital of trade companies:

- Vzeh EOOD, UIC: 203745229, partner – until 2 June 2020.

7.5 BDB Factoring EAD

BDB Factoring EAD has a one-tier management system - Board of Directors, consisting of three to five members. As at the end of 2020 and as at the date of approval of this declaration the Board of Directors consists of the following members:

Board of Directors (as of 31 December 2020):

- **Panayot Ivov Filipov** – Chairman of the Board of Directors from 20 May 2020 to 16 September 2021;
- **Georgi Vanyushev Lilyanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;
- **Todor Hristov Gunchev** – Member of the Board of Directors since 3 June 2020.

Board of Directors as at the date of approval of this declaration:

- **Tsanko Rumenov Arabadzhiev** – Chairman of the Board of Directors since 16 September 2021;
- **Georgi Vanyushev Lilyanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;
- **Krum Georgiev Georgiev** – Member of the Board of Directors since 16 September 2021.

The Company is represented by either two of the members of the Board of Directors, jointly.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art.247, Para.2, item 4 of the Commerce Act, of members of the BD of BDB Factoring AD in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

Tsanko Rumenov Arabadzhiev – Chairman of the Board of Directors since 16 September 2021;

Participates in the management of trade companies:

- Bulgarian Development Bank EAD – Executive Director and Member of the Management Board
- Capital Investments Fund AD, UIC: 205322014 – Member of the Board of Directors

Participation in the capital of trade companies or cooperatives – none.

Krum Georgiev Georgiev – Member of the Board of Directors since 16 September 2021.

Participates in the management of trade companies:

- Bulgarian Development Bank EAD – Chairman of the Management Board
- BDB Leasing AD, UIC: 205565411 – Member of the Board of Directors

Participation in the capital of trade companies or cooperatives – none.

Panayot Ivov Filipov – Chairman of the Board of Directors from 20 May 2020 to 16 September 2021;

Participates in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059, Executive Director and Member of the MB since 30 April 2020;
- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Chairman of the Board of Directors since 20 May 2020;

Participation in the capital of trade companies – none.

Georgi Vanyushev Lilyanov – Executive Director and Vice Chairman of the Board of Directors

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

Todor Hristov Gunchev – Member of the Board of Directors from 3 June 2020 to 16 September 2021.

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

In 2020, there were no material contracts concluded by the BDB Group, which lead to action, are amended, or terminated, due to changes in the control or as a result of performing a compulsory public procurement procedure, and no such contracts are expected to be concluded.

8 TRANSACTIONS WITH COMPANIES UNDER THE JOINT CONTROL OF THE STATE

Owner of BDB is the Bulgarian State. The consolidated and separate financial statements of the Bank present detailed information regarding the deals of the BDB Group and of BDB with companies under the joint control of the State.

9 STRATEGY FOR DEVELOPMENT AND BUSINESS GOALS

The long-term goals of the Bank are closely linked to its promotional activities and should not be limited to a medium-term framework. The goals include:

- improving, stimulating and developing the overall economic, export and technological potential of small and medium-sized enterprises by facilitating their access to funding by providing financial schemes and instruments for financing suboptimal and unbalanced situations for which the market does not provide adequate solutions;
- implementing funding schemes and instruments for public investments and projects that are a priority for the country's economy;
- attracting funds and providing financing in order to reduce regional imbalances in the country;
- attracting and managing medium-term and long-term local and foreign resources necessary for the economic development of the country;
- attracting funds from and managing projects of international financial and other institutions.

The strategy and activities of the BDB Group in the next 3 years adheres to the established long-term goals, but strictly follows the national priorities, based on three main pillars:

- Sustainable economic development by reducing the carbon footprint and negative effects on the environment, and increasing the degree of circularity and resource efficiency;
- Digital transformation and technological equipment of the Bulgarian business to increase productivity, efficiency and competitiveness, and to promote the transition to Industry 4.0;
- Expanding export potential through accelerated and sustainable integration into European value and supply chains - supporting connectivity and catalysing investment in modern and smart business infrastructure.

The Group's strategic goals for 2021 - 2023 refocused according to the national priorities and aim at faster recovery of SMEs and restart of the economy after the Covid-19 crisis. They goals include:

- Access to funding for SMEs and provision of flexible credit services in partnership rather than in competition with commercial banks. Direct lending to micro, small and medium-sized companies will remain an important segment in the business;
- Support the funding of public investment projects in an advanced stage of preparation as well as of ecology and modern infrastructure projects. This requires in-depth cooperation with the public sector, improving the risk profile of the Bank's portfolio, which is reported positively by rating agencies;
- Support the funding of sustainable economy projects such as green transport, the digital transition, clean production and energy use (with a view to decarbonisation and transition to climate neutrality);
- Continue of the implementation of the current National Energy Efficiency Program for multi-family residential buildings;
- Support projects of social significance (social inclusion) to strengthen the social environment and the cultural community.

In carrying out its activities, the BDB Group is guided by the principles of transparency, neutrality, profitability, efficiency, market compatibility and good banking practice. The Group's main task during the period is to meet the needs of recovery and growth of the Bulgarian economy after the crisis and to add value for borrowers. The main task of the Group during the period is to meet the needs of recovery and growth of the Bulgarian economy after the crisis and to add value for borrowers. With its financial and credit activities, BDB addresses these challenges and takes measures to facilitate access to funds and the adequacy of financial resources. By using its instruments, BDB will seek to share the risk with the private sector and improve the financial conditions for loans and thus encourage the other banks to provide funding to small and growing companies.

BDB Group's strategy for 2021-2023 is in line with the objectives of the policy for promotion of SMEs. BDB Group will continue to support financially viable and economically sustainable projects in the new strategic period. BDB will aim to increase its presence in the infrastructure sector, including energy, renewable energy, IT and telecommunications, transport and municipal infrastructure.

For the effective implementation of the above objectives and tasks, BDB Group relies on Its status as a development bank and the opportunities to attract a long-term and cheap resource from European multilateral banks, international financial institutions and international commercial banks. International capital markets are another source of external financing. During the period, BDB plans to use the instruments offered by the EU institutions for direct lending and issuance of guarantees to other intermediary banks and/or final borrowers.

In future, the BDB Group will continue to offer financing for working capital, capital investments and export finance for small and medium-sized businesses. The Group offers flexible and market-based financial solutions that meet the specificity of the borrower and the project being funded.

10 SOCIAL RESPONSIBILITY AND DIVERSITY POLICY

The Bulgarian Development Bank traditionally dedicates its mission for corporate social responsibility to topics important for the public life, such as education, culture, art and history, entrepreneurship. Supporting vulnerable social groups and preserving the natural diversity is part not only of the corporate responsibility of the institution, but also of the understanding and personal involvement of a large number of the BDB Group's employees. In 2020, with the outbreak of the COVID-19 pandemic, a new area was included in our corporate social responsibility program - healthcare.

10.1 Healthcare

BDB implemented a number of donation campaigns with regard to the state of emergency declared in March 2020 in Bulgaria and the outbreak of the COVID-19 pandemic. Medical institutions in Sofia and the country were assisted in purchasing life-saving equipment - respirators, gas analysis devices and COVID-19 tests. In addition, a campaign was implemented among the employees of the Bank and the subsidiaries, who made personal donations for the Sofia Emergency Center, as well as a donation for the medics and employees working on the front line during the Christmas and New Year's Eve holidays.

10.2 Culture, art and cultural and historical heritage

Bulgarian art, history and culture are among the foundations that build and preserve the Bulgarian national identity. For this reason, BDB makes consistent efforts to implement cultural initiatives and projects to preserve the achievements in this area.

In this regard, in 2020 BDB implemented a campaign for promotion and protection of the cultural heritage. One of the areas with potential for such support are the immovable cultural monuments and heritage in the country. The Bank studied the opportunities for financial support for cultural industries and analysed the needs of municipalities for specialized products for restoration and socialisation of cultural and historical heritage.

In 2020, BDB supported the organisation of an **International Clarinet Competition** on the occasion of the 100th anniversary of the birth of Prof. Sava Dimitrov, founder of the Bulgarian Clarinet School. The winners of the competition were announced by an International Jury composed of representatives of various leading European national schools. The Bank also supported the celebration on the occasion of the 100th anniversary of the establishment of the National Academy of Music 'Prof. Pancho Vladigerov' and the 'Prof. Sava Dimitrov' Foundation.

In pursuance of its policy to support Bulgarian art, the BDB building continues to host **temporary exhibitions of paintings and sculptures** of both young and well-established Bulgarian artists.

10.3 Education And Entrepreneurship

BDB Group joined supported the growth-promoting program of Bulgarian SMEs and start-up companies, "**Beam Up Lab**", initiated by the **Bulgarian Stock Exchange**. The initiative aims to increase the knowledge of companies in the so-called start-up/scale up stage of funding opportunities in Bulgaria.

Among the educational projects implemented in cooperation with BDB is the "Innovation Center for Integrative Practical Training" project of the **National Trade and Banking High School** (NTBHS) in Sofia. The aim of the project is to help students from X to XII grade to create their own organizational and management structure, prepare commercial and administrative documentation, make business contacts and carry out their activities in accordance with the regulations in the country.

BDB supported **ICAP Bulgaria**, the largest group of companies offering B2B services in Southeast Europe. The conference provided useful information on credit risk issues, presented by Bulgarian and international speakers. This exchange of ideas, together with the dialogue on sound credit risk mitigation practices, are the starting point for future credit risk management plans.

10.4 Ecology

The Bank supports the activities of the **'Sharo - Give a Paw to the Abandoned'** Foundation - a Bulgarian non-governmental organisation whose main activity is the rescue, treatment and adoption of stray animals, and currently cares for over 120 of them.

10.5 Vulnerable social groups

In 2020, BDB continues to support vulnerable social groups. The Bank supports organizations whose activities significantly improve the quality of life of disadvantaged people. These include:

SOS Children's Villages Bulgaria Association

The Association provides foster care in a community of foster families and thus children deprived of parental care grow up in a family environment and successfully join the society. Communities of SOS foster families, who raise children in their own homes or dwellings owned by the association have been established in Sofia and Pernik.

National Fund "St. Nikola"

The fund organizes a traditional Christmas campaign in support of children and adults with disabilities placed in social institutions. By supporting it, BDB contributes to a more fulfilling life for people with disabilities.

UNICEF

BDB supports a UNICEF campaign aimed at reducing infant mortality. The initiative provides patronage nurses in the districts of Shumen and Sliven, who support families with young children in the first 1,000 days after the babies' birth. The project has provided assistance to over 12,400 families.

Civic Initiatives Association, Lovech city

BDB provided a donation for the purchase of air conditioners for two family type centers for public support, social rehabilitation and integration of children and youngsters with disabilities. These centers accommodate 22 children from former homes for children deprived of parental care in Bulgaria.

Seven Stories Non-Profit Association

The main goal of the association is to build and equip therapeutic centers where children with autism can develop in a normal environment, and their families may acquire knowledge about the ways of social inclusion of people with special needs.

Bulgarian Christmas

The charity initiative "Bulgarian Christmas" is held under the patronage of the President of the Republic of Bulgaria and has so far helped hundreds of sick children by providing funds for diagnosis, treatment and rehabilitation. Highly specialized medical equipment was purchased for 22 medical institutions throughout the country.

St. Nikolay Orphanage - Novi Khan

BDB made a donation for the purchase of food and firewood for the St. Nikolay Orphanage - Novi Khan. Apart from the home in the village of Novi Han, some of the families are accommodated in the colony of family houses in Yakimovo village, Montana region.

Hristo Botev Primary School in Ruptsi village

BDB donated 10 computers that are not used in the work process of the bank to the school in Ruptsi village. The request relates to one of the new measures introduced by the government with regard to the closure of schools and the transfer of all students to remote learning.

In order to achieve the specific mission and objectives of the BDB, the management team of the Group strives to maintain and upgrade an adaptive, efficient and modern corporate culture and work environment tailored to the values of modern society.

The main focus is to ensure stability, continuous development and upgrade the knowledge of the Group's team, strong commitment and permanent improvement of the services offered.

VLADIMIR GUEORGUIEV	JIVKO TODOROV	TSANKO ARABADZHIEV
MEMBER OF THE MANAGEMENT BOARD AND EXECUTIVE DIRECTOR	MEMBER OF THE MANAGEMENT BOARD AND EXECUTIVE DIRECTOR	MEMBER OF THE MANAGEMENT BOARD AND EXECUTIVE DIRECTOR

BULGARIAN DEVELOPMENT BANK
BULGARIAN DEVELOPMENT BANK
SOFIA

INDEPENDENT AUDITOR'S REPORT AND
ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

BULGARIAN DEVELOPMENT BANK GROUP

INDEPENDENT AUDITORS' REPORT AND
CONSOLIDATED ANNUAL FINANCIAL STATEMENT

31 DECEMBER 2020

Unofficial translation from Bulgarian

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian text shall prevail.

INDEPENDENT AUDITORS' REPORT

To the sole shareholder of Bulgarian Development Bank EAD

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Bulgarian Development Bank EAD (the "Parent bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies and other explanatory information.

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

Basis for opinion

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

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and advances to customers	
The assessment of the expected credit losses from impairment of loans and advances to customers requires Group management to exercise a significant level of judgment, especially as regards identifying impaired receivables and quantifying loan impairment. To assess the amount of allowances for expected credit losses, the Group applies statistical models and separate analyses with input parameters obtained from internal and external sources. As disclosed in note 18 to the consolidated financial statements, the Group has recorded as at December 31, 2020 loans and advances to customers at the gross amount of BGN 2,087,855 thousand and expected credit loss for uncollectability of loans and advances to customers amounting to BGN 258,605 thousand. Key assumptions, estimates and parameters in determining the expected credit losses on collective basis are related to development of quantitative and qualitative indicators for following up a significant increase in credit risk for allocation of the separate customers' credit exposures to phases (Phase 1: Exposures without significant increase in credit risk; Phase 2: Exposures with significant increase in credit risk, but without objective evidence for impairment and Phase 3: Exposures with existing objective evidence for impairment); for determining "probability of default" (PD), "loss given default" (LGD) and "exposure at default" (EAD), as well as for inclusion of information about future development of macro-economic factors in the context of various scenarios in determination of the estimates for expected credit losses. A high degree of uncertainty is inherent in the assessment of expected credit losses for loans and advances to customers assessed on collective basis and depends on whether the Group has sufficient historical information to test the assumptions used	During our audit, we obtained understanding of the processes for calculation of expected credit losses for loans and advances, applied by the Group. We assessed the adequacy of the policies, procedures and implemented controls in the process, in order to design our procedures in such way as to be able to address the identified risks of material misstatement in this area. We assessed the adequacy of the methodology used by the Group to identify loan impairment and calculate impairment allowances on individual and portfolio basis. We tested the design, implementation and operating effectiveness of key controls management has established over the impairment assessment processes. The testing focused on controls related to: - timely identification of significant increase in credit risk and correct classification of loans to corresponding impairment stages, - regular client creditworthiness review processes, - creation and regular review of watch-lists, - approval of experts' collateral valuation, - management review and approval of the impairment assessment results. We have also reviewed the quality of the historical data used in the computation of the risk parameters and recomputed the impairment based on the risk parameters resulted from the models. We evaluated appropriateness of impairment methodologies and their application. We performed detailed substantive procedures on a risk-based sample of loans in order to verify the classification of loans and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the inputs used in the calculation of impairment losses and compared our assessment to the estimates

and calibrate the accuracy of the parameters PD and LGD in the impairment model. The determination of expected credit losses for loans and advances assessed on individual basis is also related to the application of significant estimates and assumptions by management, in particular on the timing and value of expected future cash flows under the exposure, including those from realisation of collateral. The COVID-19 pandemic has increased the uncertainty regarding the economic outlook and, together with various government measures, including the moratorium on credit payments, has increased the complexity of assessing and monitoring customers' financial position, which requires an increased level of judgement when calculating the impairment of loans and advances. Because of the significance of the valuation of loans and advances to customers for the consolidated financial statements, and due to the fact that the assumptions in determining the expected credit losses include significant estimates and application of professional judgment, we identified impairment of loans and advances to customers as a key audit matter.	applied by the Group. We analysed the financial condition of the borrowers and inquired about any breaches of contracts and/or changes from the original terms and conditions of the contract. We have considered the impact of the current economic conditions, the valuation of collaterals, and other factors that may affect the recoverability of loans. We assessed the adequacy of the Group's assumptions and estimates related to the impact of the COVID-19 pandemic, including the moratorium on loan payments and other measures, on the assessment of expected credit losses and all aspects of the process of their determination. We involved auditors' experts in the areas which required specific expertise. We assessed the completeness, appropriateness and adequacy of the disclosures in the Group's consolidated financial statements with regard to the measurement of loans and advances to customers.
Impairment of financial guarantee contracts related to COVID-19 pandemic response programmes	
Bulgarian Development Bank EAD is an issuer of financial guarantee contracts which require the Group to make certain payments in order to reimburse the holder of the guarantee for the loss he has suffered in the event that a debtor has not made a payment when it was due, in accordance with the initial or modified terms of a debt instrument. As of December 31, 2020 the Group measures financial guarantee contracts at the value of the loss allowance as determined in accordance with IFRS 9. The financial guarantee contracts issued by the Bulgarian Development Bank EAD under the	During our audit, we obtained understanding of the processes for determining the expected credit losses from financial guarantee contracts applied by the Group. We assessed the adequacy of the policies, procedures and implemented controls in the process in order to design our further audit procedures in such way as to be able to address the identified risks of material misstatement related to the recognized expected credit losses from financial guarantee contracts. We assessed the adequacy of the methodology used by the Group to identify impairment losses and calculate expected credit losses from financial guarantee contracts.

COVID-19 pandemic response programmes are credit risk guarantees that are analysed and impaired according to an impairment model developed by the Group, based on the present value of the expected future cash flows under the programs and taking into account their specifics. As disclosed in note 32 to the consolidated financial statements, the calculated provisions as of December 31, 2020 amount to BGN 120,308 thousand for both guarantees on loans to companies and guarantees on loans to individuals. The assessment of losses from financial guarantees requires the Group's management to apply a significant level of judgement, especially with regard to their quantification. Because of the significance of the assessment of the losses from the financial guarantees for the consolidated financial statements, and due to the fact that the assumptions in determining the expected credit losses include significant estimates, we identified expected credit loss from financial guarantees as a key audit matter.	We tested the design and implementation of key controls management has established over the impairment assessment processes for financial guarantee contracts. We have also reviewed the quality of the data used in the calculation of the expected credit losses and recomputed the impairment based on the parameters resulted from the models. We involved auditors' experts in the areas which required specific expertise. We performed detailed substantive procedures on all financial guarantee contracts in order to verify their proper classification and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the assumptions used in the calculation of impairment losses and compared our assessment to the estimates applied by the Group. We have considered the impact of the current economic conditions and other factors that may affect the expected credit losses. We assessed the completeness, appropriateness and adequacy of the disclosures in the Group's consolidated financial statements with regard to the expected credit losses from financial guarantee contracts.
Subsequent measurement of equity instruments at fair value through other comprehensive income representing 18.35% of the share capital of First Investment Bank AD.	
Fair value is defined as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date. The measurement of financial instruments at fair value requires the Group's management to apply a significant level of judgement, in particular with regard to the identification of the primary market for a certain instrument and to the inputs used in fair value measurement methods. The fair value hierarchy provides the highest rank of quoted (unadjusted) active market prices for identical assets	During our audit, we obtained understanding of the processes for fair value measurement of financial instruments, applied by the Group. We assessed the adequacy of the policies, procedures and implemented controls in the process, in order to design our procedures in such way as to be able to address the identified risks of material misstatement related to the fair value measurement of financial instruments. We tested the design and implementation of key controls management has established over the processes of fair value measurement of financial instruments.

or liabilities (Level 1 inputs) and lowest of unobservable inputs (Level 3 inputs). In order to determine the fair value of financial instruments that are traded on active markets and for which market information is available, the Group adopts the quoted market prices or closing prices for Level 1 inputs. As disclosed in the consolidated financial statements, as of December 31, 2020 the Group reported financial assets at fair value through other comprehensive income, representing 18.35% of the capital of First Investment Bank AD with a fair value of BGN 50,324 thousand (note 21) and loss from change in fair value at the amount of BGN 86,504 thousand (note 21). Because of the significance of the fair value measurement of this financial instrument for the consolidated financial statements, and due to the fact that the assumptions in its determining include significant estimates, we identified the fair value measurement of this financial instrument as a key audit matter.	We assessed the adequacy of the assumptions applied by the Group to identify the underlying market of the financial instrument and to determine the inputs used in the fair value measurement. We evaluated the appropriateness of the fair value measurement methodologies and their application. We performed detailed substantive procedures on the financial instrument representing 18.35% of the share capital of First Investment Bank AD in order to verify its proper classification and to identify any indications that may lead to materially different fair value. We applied our professional judgment to assess the inputs used in the fair value measurement and compared our assessment to the estimates applied by the Group. We involved auditors' experts in the areas which required specific expertise. We assessed the completeness, appropriateness and adequacy of the disclosures in the Group's consolidated financial statements with regard to the fair value measurement of the financial instrument.

Information Other than the consolidated financial statements and Auditors' Report Thereon

The Management Board of the Parent bank (the "Management") is responsible for the other information. The other information comprises the annual report on activities and the corporate governance statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditors' report and to the extent it is specifically stated.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board and the Audit Committee of the Parent bank ("Those charged with governance") are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.
- We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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 responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the IFAA, applicable in Bulgaria. In accepting and performing the joint audit engagement, in respect to which we are reporting, we have considered the Guidelines for Performing Joint Audits, issued on June 13, 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of the Registered Auditors in Bulgaria.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional matters, required to be reported by the Accountancy Act

In addition to our reporting responsibilities according to ISAs described in section "Information Other than the consolidated financial statements and Auditors' Report Thereon", with respect to the annual report on activities and the corporate governance statement, we have also performed the procedures, together with the required under ISA, in accordance with the "Guidelines regarding new extended reports and communication by the auditor" of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by the applicable in Bulgaria, Chapter Seven of the Accountancy Act and Art. 100m, paragraph 8, where applicable, of the Public Offering of Securities Act.

Opinion under Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the annual report on the activities for the financial year for which the consolidated financial statements have been prepared, is consistent with the consolidated financial statements.
- The annual report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- The information required by Chapter Seven of the Accountancy Act and Art. 100m, paragraph 8, where applicable, of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the consolidated financial statements have been prepared.

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

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

- Deloitte Audit OOD and Grant Thornton OOD were appointed as statutory auditors of the consolidated financial statements of the Group for the year ended 31 December 2020 by the general meeting of shareholders held on December 10, 2020 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2020 represents second total consecutive statutory audit engagement for that entity carried out by Deloitte Audit OOD and second total consecutive statutory audit engagement for that entity carried out by Grant Thornton OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Group's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that no prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Group.
- For the period to which our statutory joint audit refers, Deloitte Audit OOD (a company part of Deloitte network) has provided to the Parent bank, in addition to the statutory audit, the following services which have not been disclosed in Group's management report or consolidated financial statements:

  - Assurance services other than audit or review of historical financial information in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) related to expressing an opinion on the compliance with the requirements of the EU for the following items: internal control system, accounting system, independent statutory audit, public tenders, financial instruments, exclusion from access to financing, publishing information about the recipients, personal data protection, The period within the scope of the assessment is June 1, 2019 – May 30, 2020.

- For the period to which our statutory joint audit refers, Deloitte Audit OOD and Grant Thornton OOD jointly have provided to the Parent bank, in addition to the statutory audit, the following services which have not been disclosed in Group's management report or consolidated financial statements:

- Agreed-upon procedures to the application of BNB Ordinance 10 for the period January 1 – December 31, 2020, in accordance with the requirements of International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information".

Deloitte Audit OOD	Grant Thornton OOD
Deloitte Audit OOD	
Rositsa Boteva Statutory Manager Registered Auditor, in charge of the audit	Silvia Dinova Registered Auditor, in charge of the audit
	Mariy Apostolov Statutory Manager
103, Al. Stambolijski Blvd. 1303 Sofia, Bulgaria	26, Cherni Vrah Blvd. 1421 Sofia, Bulgaria

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

December 3, 2021

BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2020

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	As of 31.12.2020	As of 31.12.2019
Assets			
Cash in hand and balances in current account with the Central Bank	16	496,279	250,643
Receivables from banks	17	478,700	339,716
Financial assets at amortized cost – Loans and advances to customers	18	1,829,250	1,650,088
Financial assets at amortized cost - Receivables from the State budget	19	57,824	166,821
Financial assets at fair value through other comprehensive income – debt instruments	21	649,573	596,967
Financial assets at fair value through other comprehensive income – equity instruments	21	57,709	3,578
Financial assets at amortized cost – Securities	20	12,056	12,144
Net investment in finance lease	22	39,611	9,735
Assets held for sale	26	3,210	51
Assets, acquired from collateral foreclosure	27	33,938	35,187
Investment property	25	7,608	7,484
Property, plant and equipment, intangible assets	24	66,645	41,484
Right-of-use assets	23	108	168
Current tax receivables	27	1,116	880
Deferred tax assets	14	8,844	15
Other assets	27	21,447	8,382
Total assets		**3,763,918**	**3,123,343**
Liabilities			
Borrowings from International institutions	30	1,238,904	1,211,937
Deposits from customers other than credit institutions	29	980,491	993,370
Deposits from credit institutions	28	8,176	7,877
Lease liabilities	33	279	448
Other borrowings	31	85,009	109,351
Provisions	32	127,448	8,215
Deferred tax liabilities	14	14	417
Other liabilities	34	7,757	4,683
Total liabilities		**2,448,078**	**2,336,298**
Equity			
Share capital	35	1,441,774	601,774
Current year (loss)/profit		(231,488)	11,727
Accumulated loss		(115)	-
Revaluation reserve on financial assets at fair value through other comprehensive income	36	(63,958)	16,694
Reserves	36	169,627	156,850
Total equity		**1,315,840**	**787,045**
Total liabilities and equity		**3,763,918**	**3,123,343**

The accompanying notes from 1 to 40 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 02.12.2021.

Tsanko Arabadzhiev	**Vladimir Gueorguiev**	**Jivko Todorov**	**Ivan Lichev**
Executive Director	*Executive Director*	*Executive Director*	*Chief Accountant and Financier*

Auditors' report on the consolidated financial statements issued on 03.12.2021.

Deloitte Audit OOD, auditing company
Rositsa Boteva
Statutory Manager
Registered Auditor, In charge of the audit

Grant Thornton OOD, auditing company
Silvia Dinova, *Registered Auditor, In charge of the audit*

Mariy Apostolov, *Statutory Manager*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

BULGARIAN DEVELOPMENT BANK SOFIA

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2020	2019
Interest income	6	81,471	75,273
Interest expense	6	(19,846)	(11,358)
Net interest income		**61,625**	**63,915**
Fee and commission income	7	6,378	5,737
Fee and commission expense	7	(1,663)	(73)
Net fee and commission income		**4,715**	**5,664**
Net income on foreign exchange deals	8	457	421
Net gain on financial assets at fair value through other comprehensive income	9	2,432	3,687
Other operating income	10	2,286	1,935
Other operating expenses	11	(900)	(1,552)
Expenses on impairment and provisions, net	12A	(4,568)	(68)
Expenses on impairment of financial instruments, net	12B	(258,822)	(30,319)
Operating (loss)/income		**(192,775)**	**43,683**
Employee benefits	13A	(20,653)	(16,325)
General and administrative expenses	13B	(15,469)	(11,753)
Depreciation / amortisation expenses	24	(2,868)	(1,638)
(Loss)/Profit before income tax		**(231,765)**	**13,967**
Income tax benefit/(expense)	14	277	(2,240)
Net (loss)/profit for the year		**(231,488)**	**11,727**
Share of net (loss)/profit for the shareholder of the Parent bank		**(231,488)**	**11,727**
Share of net (loss)/profit for non-controlling interest		-	-
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial (losses)/gains on defined benefit plans, net of taxes	34	14	(48)
Net change in fair value of financial assets at fair value through other comprehensive income	15	(77,858)	-
Items to be reclassified to profit or loss in subsequent periods:			
Net change in fair value of financial assets at fair value through other comprehensive income	15	(2,794)	5,785
Total other comprehensive income for the year, net of tax		**(80,638)**	**5,737**
Total comprehensive income for the year		**(312,126)**	**17,464**
Share of the total comprehensive income for the shareholder of the Parent bank		**(312,126)**	**17,464**
Share of the total comprehensive income for non-controlling interest		-	-

The accompanying notes from 1 to 40 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 02.12.2021.

Tsanko Arabadzhiev	**Vladimir Gueorguiev**	**Jivko Todorov**	**Ivan Lichev**
Executive Director	*Executive Director*	*Executive Director*	*Chief Accountant and Preparer*

Auditors' report on the consolidated financial statements issued on 03.12.2021.

Deloitte Audit OOD, auditing company
Rositsa Boteva
Statutory Manager
Registered Auditor, in charge of the audit

Grant Thornton OOD, auditing company
Silvia Dinova, *Registered Auditor, in charge of the audit*
Marly Apostolov, *Statutory Manager*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

BULGARIAN DEVELOPMENT BANK SOFIA

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Share capital	Statutory reserves	Additional reserves	Revaluation reserve on financial assets at fair value through other comprehensive income	Retained earnings / Accumulated loss)	Total
As of 1 January 2019	**601,774**	**73,672**	**76,190**	**10,909**	**27,621**	**790,166**
Comprehensive income for the period						
Profit	-	-	-	-	11,727	11,727
Other comprehensive Income	-	-	(48)	5,785	-	5,737
Total comprehensive income	-		***(48)***	***5,785***	***11,727***	***17,464***
Dividend paid*	-	-	-	-	(20,104)	(20,104)
Transfer to the reserves based on shareholders' decision	-	5,557	1,479	-	(7,517)	(481)
Total transactions with owners	-	***5,557***	***1,479***	-	***(27,621)***	***(20,585)***
As of 31 December 2019	**601,774**	**79,229**	**77,621**	**16,694**	**11,727**	**787,045**
Comprehensive income for the period						
Loss	-	-	-	-	(231,488)	(231,488)
Other comprehensive income	-		14	(80,652)	-	(80,638)
Total comprehensive income	-		***14***	***(80,652)***	***(231,488)***	***(312,126)***
Transfer to the reserves based on shareholders' decision	-	7,956	4,807	-	(11,842)	921
Share capital increase	840,000	-	-	-	-	840,000
Total transactions with owners	***840,000***	***7,956***	***4,807***	-	***(11,842)***	***840,921***
As of 31 December 2020	**1,441,774**	**87,185**	**82,442**	**(63,958)**	**(231,603)**	**1,315,840**

* In 2019 the Group distributed a dividend to the shareholders at the amount of BGN 20,104 thousand or BGN 3.34 per share.

The accompanying notes from 1 to 40 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 02.12.2021.

Tsanko Arabadzhiev	**Vladimir Gueorguiev**	**Jivko Todorov**	**Ivan Lichev**
Executive Director	*Executive Director*	*Executive Director*	*Chief Accountant and Preparer*

Auditors' report on the consolidated financial statements issued on 03.12.2021.

Deloitte Audit OOD, auditing company
Rositsa Boteva
Statutory Manager
Registered Auditor, in charge of the audit

Grant Thornton OOD, auditing company
Silvia Dinova, *Registered Auditor, in charge of the audit*

Mariy Apostolov, *Statutory Manager*

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian text shall prevail.

BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2020	2019
Cash flows from operating activities			
(Loss)/profit for the year before tax		(231,765)	13,967
Adjustments for:			
Dividend income	10	(25)	(36)
Impairment loss on loans	12	135,816	29,661
Expenses for/(income from) guarantee provisions and unutilised credit commitments	12	119,829	(450)
(Income from)/Expenses for impairment of portfolio guarantees	12	(998)	631
Expenses for impairment of receivables from paid guarantees	12	3,055	1,174
Impairment losses and changes in the fair value of financial assets – securities at fair value through other comprehensive income	12	516	(641)
Impairment losses and changes in the fair value of financial assets – securities at amortized cost	12	25	-
Expenses for impairment under finance lease	12, 22	274	-
Gains on revaluation of investment properties	10	(152)	-
Impairment loss and sale of other assets	12	3,281	6
Net loss/(gain) on revaluation of foreign currency assets and liabilities	8	11	6
Depreciation of right-of-use assets	23	28	8
Depreciation / amortisation expenses	24	2,846	1,638
Carrying amount of written-off assets		75	7
Other changes		1,262	(1,077)
		34,078	**44,894**
Changes in:			
Financial assets at amortized cost – Receivables from banks		(64,795)	(28,325)
Financial assets at amortized cost – Loans and advances to customers		(315,025)	(614,594)
Financial assets at amortized cost – Receivables from the State budget		108,997	305,178
Financial assets at amortized cost – Securities		68	-
Financial assets at fair value through other comprehensive income – debt and equity securities		(187,905)	41,444
Net investment in finance lease		(30,158)	(8,914)
Assets held for sale		(587)	4,772
Deposits from credit institutions		278	3,358
Deposits from customers other than credit institutions		(12,857)	(177,473)
Financial liabilities at amortized cost		(14)	85
Provisions		365	204
Other trade receivables and payables		(8)	6
Other assets		(24,196)	(13,480)
Other liabilities		2,301	2,143
Income taxes paid		(901)	(2,009)
Net cash flows used in operating activities		**(490,359)**	**(442,711)**
Cash flows from investing activities			
Cash payments for acquisition of property, plant and equipment, and intangible assets		(27,599)	(5,580)
Cash proceeds from sale of property, plant and equipment, and intangible assets		-	8
Proceeds from investment property		-	611
Purchase of securities at amortised cost		(5)	(1,371)
Cash proceeds from/(payments for) matured securities at fair value through other comprehensive income		-	32
Net cash flows used in investing activities		**(27,604)**	**(6,300)**

BULGARIAN DEVELOPMENT BANK BULGARIAN DEVELOPMENT BANK SOFIA

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2020	2019
Cash flows from financing activities			
Share capital increase		840,000	-
Dividends paid		-	(20,101)
Cash paid on other borrowings		(25,732)	(2,465)
Cash received from other borrowings		1,427	1,475
Cash received from borrowings from international institutions		146,687	528,073
Cash paid on borrowings from international institutions		(119,720)	(220,918)
Lease payments		(105)	(51)
Net cash flows from financing activities		**842,557**	**286,013**
Net increase/ (decrease) in cash and cash equivalents		324,594	(162,998)
Cash and cash equivalents at the beginning of period	**38**	**454,763**	**617,761**
Cash and cash equivalents at end of period	**38**	**779,357**	**454,763**
Operating interest-related cash flows			
Proceeds from interest		75,646	82,695
Interest paid		(16,801)	(10,488)

The accompanying notes from 1 to 40 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 02.12.2021.

Tsanko Arabadzhiev *Executive Director*	**Vladimir Gueorguiev** *Executive Director*	**Jivko Todorov** *Executive Director*	**Ivan Lichev** *Chief Accountant and Procurator*

Auditors' report on the consolidated financial statements issued on 03.12.2021.

Deloitte Audit OOD, auditing company
Rositsa Boteva

Statutory Manager
Registered Auditor, in charge of the audit

Grant Thornton OOD, auditing company
Silvia Dinova, *Registered Auditor, in charge of the audit*

Marly Apostolov, *Statutory Manager*

1. ORGANISATION AND OPERATING POLICY

These consolidated financial statements of the Group of Bulgarian Development Bank EAD (the „Group") for the year ended 31 December 2020 were approved for issue by decision of the Management Board of Bulgarian Development Bank EAD ("BDB", the "Bank", the "Parent company") dated 02 December 2021.

Bulgarian Development Bank EAD ("BDB", the "Bank", the "Parent company") is a sole owned[1] joint-stock company registered with the Commercial Register under UIC 121856059, with seat in the city of Sofia, Sofia City Region, Bulgaria, and management address: 1 Dyakon Ignatii Street. The financial year of the Bank ends on 31 December.

<u>Bulgarian Development Bank Group</u>

Bulgarian Development Bank EAD Group includes the Parent-company – Bulgarian Development Bank EAD and its subsidiaries – National Guarantee Fund EAD ("NGF", the "Fund"), BDB Microfinancing EAD (former name Microfinancing Institution Jobs EAD ("MFI")), Capital Investment Fund AD ("CIF"), BDB Leasing EAD ("BDB Leasing"), BDB Factoring EAD ("BDB Factoring") and TC Maritsa EOOD ("TCM").

Bulgarian Development Bank EAD

Bulgarian Development Bank EAD was established on 11 March 1999 as a joint-stock company in Bulgaria under the name "Encouragement Bank" AD.

The Bulgarian Development Bank Act was adopted on 23 April 2008 (SG 43/29.04.2008) to regulate the structure and the scope of Bank's activities, including those for its subsidiaries, envisaged for incorporation. By virtue of that law the functions and all rights and obligations were applied to Encouragement Bank AD. Pursuant to a requirement of the law, a General Meeting of the Shareholders was held (26 June 2008) at which the name of the Bank was changed to Bulgarian Development Bank and its Articles of Incorporation were amended in line with the new legal requirements thereto.

The Bank holds a general banking licence, issued by Bulgarian National Bank (BNB) on 25 February 1999 with latest update of 16 November 2009, and is allowed to conduct all banking transactions permitted by the Bulgarian legislation. The Bank is also a licensed investment intermediary.

From the very beginning, the Bank was established with a special purpose – to support the implementation of the economic policies of the State by financing the business development of small and medium-sized enterprises (SME), including by supporting their investment and export abilities and initiatives. With the adoption of the Bulgarian Development Bank Act in 2008 this objective was further elaborated in the objectives, principles and scope of the Bank's activities set by the law.

The Bulgarian Development Bank Act (2008) provides for the establishment of two subsidiaries, joint stock companies, of the Bank - Capital Investment Fund AD and National Guarantee Fund EAD.

[1] On 04.06.2021 Bulgarian Development Bank is registered in the Trade Register and Register of Non-Profit Entities as a sole owned joint stock company owned by the Republic of Bulgaria. The sole owner rights are exercised by the Minister of Economy.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank (continued)

The Bank's lending activity includes:

- pre-export and export financing of SME;
- financing SME operations and projects either through intermediary banks or directly;
- refinancing banks that grant loans to SME;
- financing SME investments abroad.

The main objectives of the Bank are:

- to promote, encourage and develop the general economic, export and technological potential of SMEs by facilitating their access to finance;
- drawing in and management of medium and long-term local and foreign resources needed for the implementation of economic development in the country;
- implementation of schemes and instruments to finance public investment projects that are priorities for the country's economy;
- fundraising and project management of international financial and other institutions; fundraising and grant funding in order to reduce regional misbalances in the country;
- financing of projects of local companies that create export, innovation, high employment and / or value added;
- financing of priority sectors of the economy, in line with the government policy for economic development.

Bulgarian Development Bank EAD has a two-tier system of governance, which comprises Supervisory Board (SB) and Management Board (MB). The Supervisory Board and the Audit Committee represent those charged with governance.

As of 31 December 2020, the members of the Supervisory Board of BDB (SB) were: Stamen Stamenov Yanev – Chairman of SB, Mitko Emilov Simeonov – Vice Chairman and member of SB, Velina Ilieva Burska – member of SB.

As of the date of preparation of these consolidated financial statements the Supervisory Board of BDB comprises: Valentin Lyubomirov Mihov - Chairman of SB and member of SB; Vassil Atanasov Shtonov – Vice Chairman of SB and member of SB; Stamen Stamenov Yanev – member of SB, Mitko Emilov Simeonov – member of SB, Velina Ilieva Burska – member of SB. The decision of the sole owner of BDB as per Protocol dated 27.05.2021 which releases Velina Ilieva Burska and Mitko Emilov Simeonov as members of the Supervisory Board is to be entered in the Trade Register.

The composition of the Management Board of BDB as of 31 December 2020 was as follows: Nikolay Dimitrov – member of MB and Executive Director; Jivko Ivanov Todorov - member of MB and Executive Director; and Panayot Ivov Filipov - member of MB and Executive Director.

As of the date of issue of these consolidated financial statements the Management Board of BDB comprises: Krum Georgiev Georgiev – Chairman of MB; Vladimir Rashkov Gueorguiev – member of MB and Executive Director; Tsanko Rumenov Arabadzhiev - member of MB and Executive Director and Jivko Ivanov Todorov - member of MB and Executive Director.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank (continued)

The Bank is represented jointly by either two of the three Executive Directors.

As of 31 December 2020, the Bank’s employees were 235 (31 December 2019: 208).

The Bulgarian Development Bank Act (2008) envisages the establishment of two Bank subsidiaries - the Capital Investment Fund AD and the National Guarantee Fund EAD (Note 23). National Guarantee Fund EAD was established in 2008 with BGN 80,000 thousand share capital and Capital Investment Fund AD was established in 2018 with share capital of BGN 65,000 thousand 100% paid in (as of 31 December 2019: 25%). The share of BDB in Capital Investment Fund AD is 85%, NGF owns the other 15%.

The Bank is a sole owner of the capital of BDB Microfinancing EAD (previously Microfinancing Institution JOBS EAD) registered on 14 January 2011. The total amount of the capital paid in is BGN 7,643 thousand distributed in 76,430 shares of BGN 100 each.

In addition, BDB owns 100% of the share capital of the following companies established in 2019: BDB Leasing EAD with a capital of BGN 20 million as of 31.12.2020 and BDB Factoring EAD with a capital of BGN 2 million as of 31.12.2020. On 23.03.2021 the MB of BDB took a decision to merge BDB Factoring EAD in BDB as BDB shall assume the activity of BDB Factoring entirely as well as its assets and liabilities. Bulgarian National Bank and Commission for protection of competition provided the necessary regulating approvals for the transformation. The procedure is to be finalized.

As of 31.12.2020 the Bulgarian Development Bank EAD has no open branches.

Significant changes in the management bodies and structure of the Bank in 2020

In 2020 the following changes in the management and structure of the Bank have been made:

Changes in the Bank's Management Board in 2020

By Decision of the Supervisory Board of the BDB under Protocol No 10 of 06.04.2020 Mr. Jivko Ivanov Todorov was elected as a new member of the Management Board of the BDB. Mr. Jivko Ivanov Todorov is authorized to represent and manage the Bank as Executive Director. The circumstances are recorded in the Trade Register on 14.04.2020.
By Decision of the Supervisory Board of the BDB under Protocol No 12 of 08.04.2020, the authorization of the Chief Executive Director to represent the Bank was withdrawn and a decision was taken to dismiss Mr. Stoyan Todorov Mavrodiev as a member of the Management Board of the Bank. The circumstances are recorded in the Trade Register on 22.04.2020.

By Decision of the Supervisory Board under Protocol No 12 of 14.04.2020, Mr. Panayot Ivov Filipov was elected as a new member of the Management Board of the BDB. This circumstance was recorded in the Trade Register on 24.04.2020. Mr Panayot Filipov is authorized to represent and manage the Bank as Executive Director. This circumstance was recorded in the Trade Register on 30.04.2020.

By Decision of the Supervisory Board under Protocol No 18 of 24.04.2020, the authorization of the Executive Director to represent the Bank was withdrawn and a decision was taken to dismiss Mr. Rumen Dimitrov Mitrov as a member of the Management Board of the Bank. This circumstance was recorded in the Trade Register on 30.04.2020.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank (continued)

Significant changes in the management bodies and structure of the Bank in 2020 (continued)

Changes in the Bank's Supervisory Board in 2020
By Decision of the General shareholders meeting of the Bank on 20.08.2020 Mr. Luchezar Dimitrov Borisov was dismissed as a member of the Supervisory Board and replaced by Mr. Stamen Stamenov Yanev. The replacement of Mr. Luchezar Borisov with Mr. Stamen Yanev in the Supervisory Board was recorded in the Trade Register on 26.08.2020.

Change in the structure of the Bank in 2020
By decisions of the Management Board of 12.05.2020, 22.06.2020 and 21.08.2020 confirmed by the Supervisory Board on 14.05.2020, 29.06.2020 and 01.09.2020 the Bank made changes to its organizational structure as follows:

- Closed the departments General Secretary and Cabinet of Management Board;
- Transferred departments "Strategic Development and Planning", "Public Relations" and "Concessions" previously subordinated to the head of Cabinet of the Management Board to executive director and department "Strategic Development and Planning" is transformed to a division and renamed to "Strategic Development";
- "Classified Information" Department is transformed to "Classified Information" Division;
- "Secretariat" Department is separated from "Administration" Division and is directly subordinated to executive director;
- The position "Data Protection Officer", part of "Classified Information" Division is separated and is directly subordinated to executive director;
- A new Division "Monitoring and Financial Instruments" was established.

For the purpose of function and control allocation among the executive directors of BDB the structure components of the Bank's organizational structure are grouped in sectors as follows:

Sector № 1

- "Risk" Division
- "Credit Administration" Division
- „Non-Performing Loans" Division
- „Legal" Division
- „Information Technologies" Division
- „Classified Information" Division
- Data Protection Officer

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank (continued)

Significant changes in the management bodies and structure of the Bank in 2020 (continued)

Change in the structure of the Bank in 2020 (continued)

Sector № 2

- „Corporate Banking“ Division
- „Treasury“ Division
- „On-lending Programs“ Division
- „Investment Banking and Project Financing“ Division
- „International Financial Institutions and EU Funds“ Division
- „Monitoring and financial instruments“ Division
- „Administrative“ Division
- „Human Resources“ Division
- „Security“ Division
- „Public Concession“ Department
- „Secretariat“ Department

Sector № 3

- „Accounting“ Division
- „Planning, Analysis and Regulations“ Division
- „Operations and Client Services“ Division
- „Compliance“ Division
- „Strategic Development“ Division
- „Public Relations“ Department
- Chief Economist

The allocation of responsibilities among the members of the Management Board of BDB is as follows:

Sector 1 – Mr. Panayot Filipov, Executive Director, member of Management Board
Sector 2 – Mr. Nikolay Dimitrov, Executive Director, member of Management Board
Sector 3 – Mr. Jivko Todorov, Executive Director, member of Management Board

Significant changes in the management bodies and structure of the Bank in 2021

Changes in the Bank's Supervisory Board in 2021

By decision of the sole owner of BDB under Protocol dated 25.06.2021 Valentin Lyubomirov Mihov and Vassil Shtonov were elected for members of the Bank’s Supervisory Board. This circumstance was recorded in the Trade Register and Register of Non-Profit Entities on 07.07.2021. Mr. Valentin Lyubomirov Mihov was elected for Chairman of the Bank’s Supervisory Board.

The decision of the sole owner of BDB as per Protocol dated 27.05.2021 which releases Velina Ilieva Burska and Mitko Emilov Simeonov as members of the Supervisory Board is to be entered in the Trade Register.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank (continued)

Significant changes in the management bodies and structure of the Bank in 2021 (continued)

Changes in the Bank's Management Board in 2021
By decision of the Supervisory Board under Protocol No 18 of 30.06.2021 Vladimir Rashkov Gueorguiev, Tsanko Rumenov Arabadzhiev and Krum Georgiev Georgiev were elected as new members of the Management Board. This circumstance was recorded in the Trade Register on 07.07.2021. By decision of the Management Board under Protocol No 44/30.06.2021 Mr. Vladimir Rashkov Gueorguiev and Mr. Tsanko Rumenov Arabadzhiev are authorized to represent and manage the Bank as executive directors. This circumstance was recorded in the Trade Register on 07.07.2021. Mr. Krum Georgiev Georgiev was elected for Chairman of the Managing Board.

On 14.07.2021 Nikolay Dimitrov Dimitrov and Panayot Ivov Filipov were deregistered in the Trade Register as members of the Managing Board.

Changes in the Bank's Audit Committee in 2021
By decision under Protocol of 25.05.2021 of the Minister of Economy exercising the rights of the sole owner of BDB the following Audit Committee members were released: Krassimir Vasilev Yordanov, Kalina Ivanova Mavrova and Rositsa Nikolova Grigorova. They were replaced by Dragomir Ivanov Vuchev, Valentin Lyubomirov Mihov and Vassil Atanasov Shtonov. By decision under Protocol of 22.06.2021 of the Minister of Economy exercising the rights of the sole owner of BDB Mr. Valentin Lyubomirov Mihov was released from the Audit Committee and by decision of 07.07.2021 Mrs. Gergana Stoyanova Moskova was elected as a member.

In September 2021 the Minister of Economy approved a new Status of the Audit Committee.

Changes in the MB members' responsibilities in 2021
After these changes in the membership of SB and MB in 2021 the current organizational structure as of the date of these financial statements is as follows – it is separated in four directions with the following members of MB and executive directors:

Sector № 1, with a structure subordinated to Mr. Krum Georgiev Georgiev, Chairman of MB:
- "Risk" Division
- "Credit Administration" Division
- „Non-Performing Loans" Division
- „Classified Information" Division
- „Security" Division
- Data Protection Officer

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank (continued)

Significant changes in the management bodies and structure of the Bank in 2021 (continued)

Changes in the MB members' responsibilities in 2021 (continued)

Sector № 2, with a structure subordinated to Mr. Vladimir Rashkov Gueorguiev, Executive Director and member of MB:

- „Corporate Banking“ Division
- „Investment Banking and Project Financing“ Division
- „Legal“ Division
- „Operations and Client Services“ Division
- „Secretariat“ Department
- „Public Concession“ Department

Sector № 3, with a structure subordinated to Mr. Tsanko Rumenov Arabadzhiev, Executive Director and member of MB:

- „Treasury“ Division
- „On-lending Programs“ Division
- „International Financial Institutions and EU Funds“ Division
- „ Financial Instruments“ Division
- „Human Resources“ Division
- „Administrative“ Division

Sector № 4, with a structure subordinated to Mr. Jivko Ivanov Todorov, Executive Director and member of MB:

- Chief Economist
- „Accounting“ Division
- „Planning, Analysis and Regulations“ Division
- „Strategic Development“ Division
- „Compliance“ Division
- „Information Technologies“ Division
- „Public Relations“ Department

"Group Internal Audit" division – the function for the Group's internal audit is independent and in direct communication with SB/MB.

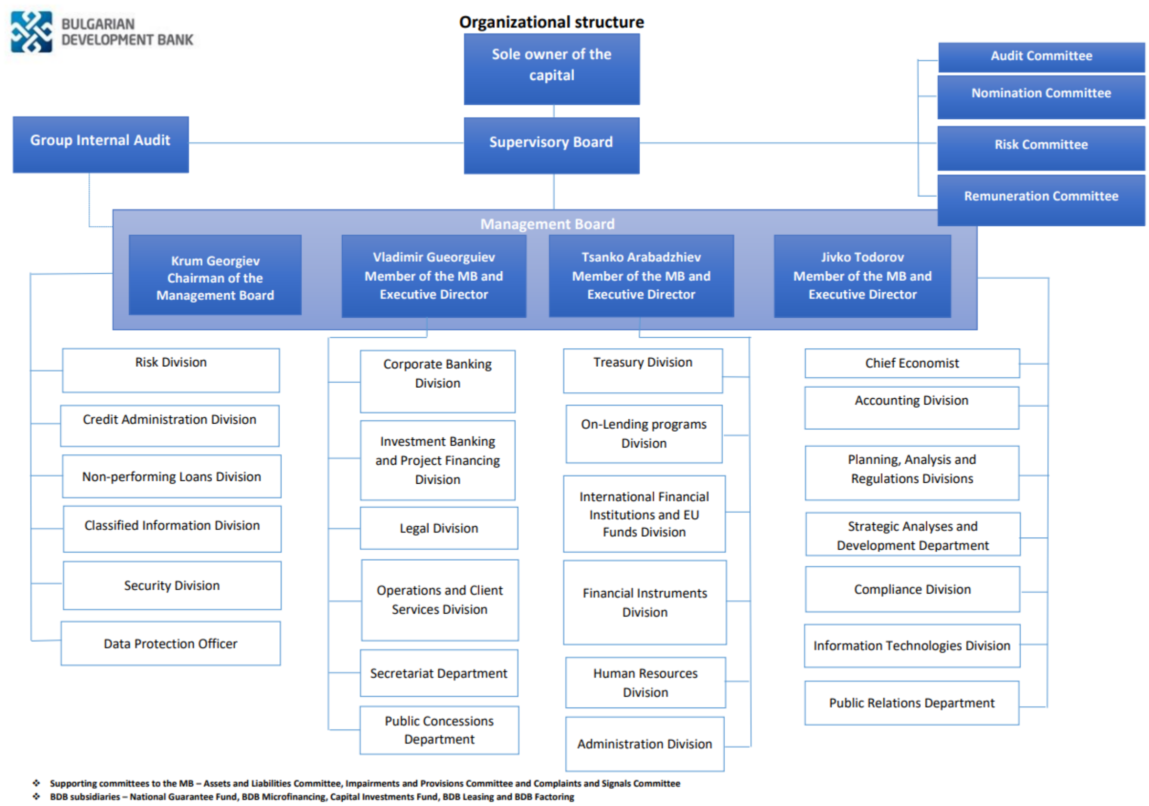
There is a chart of the actual organizational structure of BDB presented on the next page.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank (continued)

Significant changes in the management bodies and structure of the Bank in 2021 (continued)

Changes in the MB members' responsibilities in 2021 (continued)



In 2021 to the date of approval of these consolidated financial statements the following changes in the organizational structure of the Bank were made:

By decision of the Management Board dated 12.08.2021 and as of 24.08.2021, the name of the division "Monitoring and Financial Instruments" was changed to "Financial Instruments" in order to focus on the main activity while maintaining the current functions, and the change is reflected in the organizational structure of the Bank.

By decision of the Management Board dated 11.08.2021 and as of 24.08.2021, approved by decisions of the Supervisory Board dated 25.08.2021, as of 01.09.2021, the following changes were made in SectorNo 4:

- The Accounting Division is structured by functions, with the establishment of Internal Accounting Division, Business Accounting Division and Tax Methodology Division.
- The Strategic Development Division is restructured into the Strategic Analysis and Development Division and transferred under direct subordination of the sector executive director, as a result of which inefficient functions of the unit are eliminated.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Bulgarian Development Bank (continued)

Significant changes in the management bodies and structure of the Bank in 2021 (continued)

Changes in the MB members' responsibilities in 2021 (continued)
With regard to the introduction of a strategy for more active direct lending to businesses, in accordance with the amendment of the Bank's Statute and in order to increase the loan portfolio, the Management Board decided to establish, as of 30.09.2021, a "Business Development" unit with the Corporate Banking Division and a Call Center unit with the Secretariat Department, as of October 6, 2021. The activities of the new units are focused on offering new attractive banking products, new customer programs supported by the Pan-European Guarantee Fund (PEGF), launching the digital platform and providing remotely up-to-date information on specific issues, given the lack of a branch network of the Bank.

Changes in the management bodies of subsidiaries in 2020 and 2021
All subsidiaries of BDB are represented jointly of either two members of the Board of Directors. The procurators of the subsidiaries of BDB may represent a company jointly with any member of the Board of Directors of the respective company.

By decision of BDB Management Board the following changes in the management bodies of BDB subsidiaries have been made:

BDB Leasing EAD
By Decision under Protocol No 33 of 13.05.2020 of the Management Board of BDB EAD in its capacity of sole owner of BDB Leasing EAD Mr. Stoyan Todorov Mavrodiev, Mr. Rumen Dimitrov Mitrov and Mr. Nikolay Dimitrov Dimitrov are released as members of the Board of Directors of BDB Leasing EAD. Mr. Jivko Ivanov Todorov, Mrs. Antoniya Hristoforova Dobreva and Mr. Emil Valkanov Valkanov are elected as new members. At the same time the authorization of the procurator Emil Valkanov Valkanov is withdrawn. Mr. Jivko Ivanov Todorov is elected as chairman of the Board of Directors, Mr. Emil Valkanov Valkanov is elected as vice chairman of the Board of Directors and Executive Director. The circumstances are recorded in the Trade Register on 20.05.2020.

By Decision under Protocol No 34 of 13.05.2020 the Management Board of BDB AD in its capacity of sole owner of BDB Leasing EAD approved the authorization of Mr. Ivaylo Kirilov Popov as a procurator of BDB Leasing EAD. The circumstance is recorded in the Trade Register on 1.06.2020.

By Decision under Protocol of 17.08.2021 the Management Board of BDB AD in its capacity of sole owner of BDB Leasing EAD released Jivko Ivanov Todorov as a member of the company's Board of Directors. He was replaced by Krum Georgiev Georgiev. The circumstance is recorded in the Trade Register on 23.08.2021. Mr. Krum Georgiev was elected for Chairman of the company's Board of Directors.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Changes in the management bodies of subsidiaries in 2020 and 2021 (continued)

BDB Leasing EAD (continued)

Board of Directors members as of 31.12.2020 are:

- Jivko Ivanov Todorov – Chairman of the Board of Directors from 20.05.2020 to 23.08.2021;
- Emil Valkanov Valkanov – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- Antoniya Hristoforova Dobreva – Member of the Board of Directors as of 20.05.2020.

The company has an authorized procurator - Ivaylo Kirilov Popov as of 01.06.2020.

Board of Directors members as of the date of issue of these financial statements are:

- Krum Georgiev Georgiev as of 23.08.2021 – Chairman of the Board of Directors;
- Emil Valkanov Valkanov – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- Antoniya Hristoforova Dobreva – Member of the Board of Directors as of 20.05.2020.

The company has an authorized procurator - Ivaylo Kirilov Popov as of 01.06.2020.

BDB Factoring EAD

By Decision under Protocol No 39 of 13.05.2020 of the Management Board of BDB EAD in its capacity of sole owner of BDB Factoring EAD Mr. Stoyan Todorov Mavrodiev and Mr. Rumen Dimitrov Mitrov are released as members of the Board of Directors of BDB Factoring EAD. Mr. Panayot Ivov Filipov and Mr. Georgi Vanyushev Lilyanov are elected as new members. At the same time the authorization of the procurator Georgi Vanyushev Lilyanov is withdrawn. Mr. Panayot Filipov is elected as chairman of the Board of Directors, Mr. Georgi Vanyushev Lilyanov is elected as vice chairman of the Board of Directors and Executive Director of BDB Factoring EAD. The circumstances are recorded in the Trade Register on 20.05.2020.

By Decision under Protocol No 48 of 26.05.2020 of the Management Board of BDB EAD in its capacity of sole owner of BDB Factoring EAD Mr. Nikolay Dimitrov Dimitrov is released as a member of the Board of Directors of BDB Factoring EAD. Mr. Todor Hristov Gunchev is elected as a new member of the Board of Directors. The circumstances are recorded in the Trade Register on 3.06.2020.

By Decision under Protocol of 2.09.2021 of the Management Board of BDB EAD in its capacity of sole owner of BDB Factoring EAD Panayot Ivov Filipov and Todor Hristov Gunchev are released as members of the Board of Directors of the company and Tsanko Rumenov Arabadzhiev and Krum Georgiev Georgiev are elected as new members. The circumstances are recorded in the Trade Register on 16.09.2021. Mr. Tsanko Rumenov Arabadzhiev is elected for chairman of the Board of Directors of the company.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Changes in the management bodies of subsidiaries in 2020 and 2021 (continued)

BDB Factoring EAD (continued)

Board of Directors members as of 31.12.2020 are:

- Panayot Ivov Filipov – Chairman of the Board of Directors from 20.05.2020 to 16.09.2021;
- Georgi Vanyushev Lilyanov – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- Todor Hristov Gunchev – Member of the Board of Directors from 03.06.2020 to 16.09.2021.

Board of Directors members as of the date of issue of these financial statements are:

- Tsanko Rumenov Arabadzhiev - Chairman of the Board of Directors as of 16.09.2021;
- Georgi Vanyushev Lilyanov – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- Krum Georgiev Georgiev – Member of the Board of Directors as of 16.09.2021.

National Guarantee Fund EAD

By Decision under Protocol No 35 of 13.05.2020 of the Management Board of BDB EAD in its capacity of sole owner of National Guarantee Fund EAD Mr. Stoyan Todorov Mavrodiev, Mr. Angel Atanasov Djalazov and Andon Georgiev Georgiev are released as members of the Board of Directors of National Guarantee Fund EAD. Mr. Jivko Ivanov Todorov, Mr. Todor Lyudmilov Todorov and Mrs. Zaharina Damyanova Todorova are elected as new members. Mr. Jivko Todorov is elected as chairman of the Board of Directors, Mr. Todor Todorov is elected as vice chairman of the Board of Directors and Executive Director of the company. At the same time the authorization of the procurator Mr. Andon Georgiev Georgiev is withdrawn. The circumstances are recorded in the Trade Register on 20.05.2020.

By Decision under Protocol of 16.09.2021 of the Management Board of BDB EAD in its capacity of sole owner of National Guarantee Fund EAD Mr. Deyan Petrov Kalapchiev was elected for member of the Board of Directors of National Guarantee Fund EAD and this circumstance was recorded in the Trade Register on 27.09.2021.

Board of Directors members as of 31.12.2020 are:

- Jivko Ivanov Todorov – Chairman of the Board of Directors as of 20.05.2020;
- Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- Zaharina Damyanova Todorova – Member of the Board of Directors as of 20.05.2020.

Board of Directors members as of the date of issue of these financial statements are:

- Jivko Ivanov Todorov – Chairman of the Board of Directors as of 20.05.2020;
- Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- Zaharina Damyanova Todorova – Member of the Board of Directors as of 20.05.2020;
- Deyan Petrov Kalapchiev - Member of the Board of Directors.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Changes in the management bodies of subsidiaries in 2020 and 2021 (continued)

BDB Microfinancing EAD (previously Microfinancing Institution JOBS EAD[2])

By Decision under Protocol No 37 of 13.05.2020 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD (former Microfinancing Institution JOBS EAD) Mr. Rumen Dimitrov Mitrov, Mr. Nikolay Dimitrov Dimitrov, Mr. Angel Atanasov Djalazov and Mrs. Hristina Atanasova Todorova are released as members of the Board of Directors of BDB Microfinancing EAD (former Microfinancing Institution JOBS EAD). Mr. Panayot Ivov Filipov, Mrs. Ivana Borisova Tzaneva and Mrs. Angelina Georgieva Angelova are elected as new members. The authorization of the procurator Hristina Todorova is withdrawn. The circumstances are recorded in the Trade Register on 20.05.2020.

By Decision under Protocol No 46 of 21.05.2020 the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD (former Microfinancing Institution JOBS EAD) approved the election of Mrs. Ivana Borisova Tzaneva as Executive Director of the company.

By Decision under Protocol No 47 of 22.05.2020 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD (former Microfinancing Institution JOBS EAD) Mr. Stamen Stamenov Yanev is elected as new member of the Board of Directors. The circumstance is recorded in the Trade Register on 29.05.2020.

By Decision under Protocol of 30.07.2020 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD (former Microfinancing Institution JOBS EAD) Mr. Stamen Stamenov Yanev was released as a member of the Board of Directors of the company. The circumstance is recorded in the Trade Register on 05.08.2020.

By Decision under Protocol of 24.08.2020 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD (former Microfinancing Institution JOBS EAD) Mr. Iliya Radkov Komitov was elected for member of the Board of Directors of BDB Microfinancing EAD (former Microfinancing Institution JOBS EAD) and this circumstance was recorded in the Trade Register on 28.08.2020.

By Decision under Protocol of 17.08.2021 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD (former Microfinancing Institution JOBS EAD) Mr. Vladimir Rashkov Gueorguiev was elected for member of the Board of Directors of BDB Microfinancing EAD (former Microfinancing Institution JOBS EAD) and this circumstance was recorded in the Trade Register on 23.08.2021. Mr. Vladimir Rashkov Gueorguiev was also elected for chairman of the Board of Directors of the company.

By Decision under Protocol of 23.08.2021 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD (former Microfinancing Institution JOBS EAD) Panayot Ivov Filipov and Angelina Georgieva Angelova were released as members of the Board of Directors of the company and Boyan Stefanov Byanov was elected as new member. These circumstances are recorded in the Trade Register on 30.08.2021.

[2] The name of the company Microfinancing Institution JOBS EAD was changed to BDB Microfinancing EAD as of 12 April 2021.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Changes in the management bodies of subsidiaries in 2020 and 2021 (continued)

BDB Microfinancing EAD (previously Microfinancing Institution JOBS EAD *(continued)*

Board of Directors members as of 31.12.2020 are:

- Panayot Ivov Filipov – Chairman of the Board of Directors from 20.05.2020 to 30.08.2021;
- Ivana Borisova Tzaneva – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- Angelina Georgieva Angelova – Member of the Board of Directors from 20.05.2020 to 30.08.2021;
- Iliya Radkov Komitov - Member of the Board of Directors as of 28.08.2020.

Board of Directors members as of the date of issue of these financial statements are:

- Vladimir Rashkov Gueorguiev – Chairman of the Board of Directors as of 23.08.2021;
- Ivana Borisova Tzaneva – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- Iliya Radkov Komitov – Member of the Board of Directors as of 28.08.2020;
- Boyan Stefanov Byanov – Member of the Board of Directors as of 30.08.2021.

Capital Investments Fund AD

Mr. Stoyan Todorov Mavrodiev and Mr. Rumen Dimitrov Mitrov are released as members of the Board of Directors of Capital Investments Fund AD on extraordinary general meeting of the shareholders of Capital Investments Fund AD held on 13.05.2020. Mr. Tihomir Gochev Chemshirov and Mr. Tzvetomir Georgiev Tzanov are elected as new members of the Board of Directors. The changes are recorded in the Trade Register on 20.05.2020.

By Decision under Protocol No 11 of 13.05.2020 of the Board of Directors of Capital Investments Fund AD Mr. Nikolay Dimitrov Dimitrov is elected as chairman of the Board of Directors and Mr. Tihomir Gochev Chemshirov is elected as vice chairman. At the same time Mr. Nikolay Dimitrov Dimitrov is elected as Executive Director of the company.
By Decisions of the general meeting of the shareholders of the company held on 30.07.2021, 13.08.2021 and 7.09.2021 new Board members are elected – Tsanko Rumenov Arabadzhiev, Stefan Stefanov Tamnev and Krasimir Tanev Atanasov. The members of the Board of Directors Nikolay Dimitrov Dimitrov and Tihomir Gochev Chemshirov are released.

These circumstances are recorded in the Trade Register on 05.08.2021, 20.08.2021 and 14.09.2021, respectively.
Mr. Tsanko Rumenov Arabadzhiev is elected as chairman of the Board of Directors of the company and Mr. Stefan Stefanov Tamnev – as deputy chairman and Executive Director of the company.

Board of Directors members as of 31.12.2020 are:

- Nikolay Dimitrov Dimitrov – Chairman of the Board of Directors and Executive Director from 20.05.2020 to 20.08.2021;
- Tihomir Gochev Chemshirov – Deputy Chairman of the Board of Directors from 20.05.2020 to 14.09.2021;
- Tzvetomir Georgiev Tzanov – Member of the Board of Directors as of 20.05.2020.

The company has an authorized procurator – Angel Penev Hadjiev as of 21.08.2020.

1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

Changes in the management bodies of subsidiaries in 2020 and 2021 (continued)

Capital Investments Fund AD (continued)

Board of Directors members as of the date of issue of these financial statements are:

- Tsanko Rumenov Arabadzhiev – Chairman of the Board of Directors as of 20.08.2021;
- Stefan Stefanov Tamnev – Executive Director and Deputy Chairman of the Board of Directors as of 20.08.2021;
- Tzvetomir Georgiev Tzanov – Member of the Board of Directors as of 20.05.2020;
- Krasimir Tanev Atanasov – Member of the Board of Directors as of 05.08.2021.

Trade Center „Maritsa" EOOD

Trade Center „Maritsa" EOOD (TC Maritsa) became an ownership of Bulgarian Development Bank AD by virtue of decision of the Bank's Management Board in accordance with Minutes No. 29 dated 18 May 2018. The main scope of activity of TC Maritsa includes the operation of concession of the Trade Center, namely a „pedestrian bridge" in Plovdiv City, in accordance with a contract concluded with Plovdiv Municipality, through setting up trade outlets and collecting rents. The concession contract matures in 2036. As of 31.12.2020 the carrying amount of the Bank's share in the company on a separate basis is BGN 3,600 thousand (as of 31.12.2019: BGN 4,095 thousand).

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU).

The Bank prepares separate financial statements in accordance with the Accountancy Act.

These consolidated financial statements shall be read together with the separate financial statements.

Statement of compliance

These consolidated financial statements have been prepared on a historical cost basis except for the following items:

- Financial assets at fair value through profit or loss
- Financial assets at fair value through other comprehensive income
- Financial instruments carried at amortised cost
- Investment property at fair value
- Assets held for sale at the lower of their carrying amount and fair value less sales costs
- Assets acquired from collateral foreclosure carried at the lower of their acquisition cost and net realisable value.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Going concern

The Group companies' management assessed their ability to continue their activities as a going concern and is confident about the availability of sufficient resources to continue their normal operations in the foreseeable future. The total equity of the Group is lower than the share capital due to the realized loss in 2020. Bulgarian Development Bank EAD submitted a proposal to the Minister of Economy in his capacity of sole owner of the capital of BDB on behalf of the State to take a decision to cover partially the loss in the annual financial statements for 2020 with funds from the Statutory and Additional reserves of the Bank. As the equity of the Group is higher than the minimum required for banking activity and the capital adequacy is over the regulatory required level (see Note 4.5) this circumstance does not affect the ability of the Group to continue its activity as a going concern. Companies' management are not aware of any significant uncertainty that could cast doubts as to the ability of the companies to continue operating as a going concern. In view of the above these consolidated financial statements have been prepared on a going concern basis.

Order of liquidity and maturity structure

The Group presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities is presented in Note 4.3.

Comparability of data

The consolidated financial statements provide comparative information with respect to one previous period.

Presentation currency

The Bulgarian lev is the functional and reporting currency of BDB and its subsidiaries. These consolidated financial statements are presented in thousands of Bulgarian leva (BGN'000).

Methods of consolidation

These consolidated financial statements have been prepared in accordance with IFRS 10 "Consolidated Financial Statements", which scopes in all entities over which Bulgarian Development Bank AD has control through ownership of:

- rights to manage all important activities of the investee;
- exposure or rights to variable return (to obtain benefits or to suffer losses from the activity) from its participation in the entity;
- possibility to exercise control over the investee in order to influence the amount of the return.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes in one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent company obtains control over the subsidiary and ceases when the Parent company loses control over the subsidiary. Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Methods of consolidation (continued)

The companies consolidated and the consolidation method adopted as at 31 December 2020 are as follows:

Company	Share	Consolidation method
National Guarantee Fund EAD („NGF“)	100%	full consolidation
BDB Microfinancing EAD (former Microfinancing Institution JOBS EAD)	100%	full consolidation
BDB Leasing EAD	100%	full consolidation
BDB Factoring EAD	100%	full consolidation
Capital Investment Fund AD („CIF“)	100%[3]	full consolidation
TC Maritsa EOOD („TC Maritsa“)	100%	full consolidation
Cohoferm OOD	0%[4]	full consolidation

Upon consolidation all receivables and liabilities, income and expenses, arising from transactions between the Bank and its subsidiaries, are eliminated. Unrealised losses are eliminated in the same way as the unrealised profit in case there are no indications of impairment. The subsidiaries' financial statements have been prepared for the same reporting period as that of the Parent Company and consistent accounting policies have been applied.

Key estimates and assumptions of high uncertainty

The preparation of the consolidated financial statements in accordance with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. These estimates are made on the basis of information available as of the date of the financial statements and therefore, the actual results may differ from these estimates. The items presuming a higher level of subjective assessment or complexity, or where the assumptions and accounting estimates are material for the financial statements, are disclosed in the notes below.

[3] Bulgarian Development Bank AD – 84.62%, National Guarantee Fund EAD – 15.38%.

[4] BDB acquired control over Cohoferm OOD due to non-performance on a loan agreement and appointed a managing director of the company. The exit strategy provides for the sale of assets, and in these financial statements they are presented at fair value as Assets Held for Sale (see Note 26). The company's liabilities are presented as Other Liabilities - Liabilities Related to Assets Held for Sale (see Note 34).

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Key estimates and assumptions of high uncertainty (continued)

a) Expected credit losses on assets carried at amortised cost

Monthly, the Group reviews its loan portfolio and other assets carried at amortised cost in order to detect the amount of the expected impairment losses. When assessing the amount of the impairment loss in the consolidated statement of comprehensive income, the management of the subsidiaries within the Group considers the quantitative effect of the observable indicators and data, which indicate that there is a measurable reduction in the expected cash flows from the loan portfolio as a whole, or respectively – a decrease associated with a particular loan/component from this portfolio. Such indicators and data are those that indicate the existence of an adverse change in the payment options by the borrowers from a particular group or by a particular borrower, or the presence of national, economic or other conditions that are associated with a particular risk for a given group/type of loans.

The main indicators for determining the risk groups are the debtor's financial condition and project implementation, funded by the loan, problems with servicing, including interest in arrears and maturing principal, sources of repayment and granted collateral, as a type and opportunity for realisation. Additionally, for loans, guaranteed by the European Investment Fund (EIF), the impairment loss is recognised after deduction of the portion borne by EIF (Note № 4.1).

In determining the future cash flows pattern, the Group's management uses estimates, judgments and assumptions based on its historical loss experience, adjusted with European statistical data for assets with similar credit risk characteristics, as well as objective evidence for impairment or expected impairment of the portfolio from unrealised loss in a particular component thereof. Analogous approach is used also for assessments at individual credit exposure, with respect to individually significant loans, taking into account the quality of collateral as well. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly so as to minimize the discrepancies between loss estimates and actual loss experienced (Notes 12 and 18 C).

b) Measurement of financial instruments at fair value through other comprehensive income

Equity instruments not quoted on the stock market

The Group classifies as financial assets at fair value through other comprehensive income its investments held in the form of non-publicly traded companies' shares / entities (less than 33% of their capital), which have been acquired with the aim to establish and develop business relations of interest to the Bank. Management measures these financial assets at fair value using methods that are allowed under IFRS 13, except in cases where it has judged that the cost of acquisition (cost) better reflects their fair value, namely:

- When there is no sufficient and up-to-date information to enable it to measure the fair value; or
- When there is a large scope of eligible methods and/or resultant valuations of the fair value and the cost approximates most closely the fair value within a range of values calculated (Notes 9, 21).

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Key estimates and assumptions of high uncertainty (continued)

b) Measurement of financial instruments at fair value through other comprehensive income (continued)

Equity and debt instruments quoted on stock markets
As of 31 December 2020, the Bank conducted a detailed comparative analysis of the movements on the national and foreign stock markets of the stock market prices of public companies' shares and bonds listed for dealing held by it.

For investments in securities that are listed for dealing at stock exchange markets, management has carried out research and analyses and deems that they may be subsequently carried at fair value determined directly on the basis of completed transactions in the stock market in the last month of the financial year (Level 1). In addition, the applied prices are analysed for trends in the behaviour of stock exchange prices of the respective securities at least for the last three months of the year and respectively, to the date of issuing of the consolidated financial statements. (Notes 9, 15, 21).

The Group recognizes impairment for expected credit losses for its debt instruments in compliance with its Policy and Methodology for assessment of expected credit losses and calculation procedure.

c) Provisions for bank and loan guarantees issued
The Group has formed provisions for a portfolio of contingent liabilities for payment in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* The Group reviews its contingent liabilities the purpose of establishing whether any events have occurred, that would confirm to a large extent the probability that a commitment will be paid to settle an obligation. If such events occur, the Group provides its liability up to the amount of its future costs related to the outflows of economic benefits/payments. These costs/losses are determined on the basis of the present value of the future net cash flows, representing the difference between the payment obligation and the possible inflows of subsequent recourse to the guarantee user or third parties (Notes 12, 31).

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Key estimates and assumptions of high uncertainty (continued)

c) Provisions for bank and loan guarantees issued (continued)

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount recognised initially less, where appropriate, cumulative amortisation of recognised revenue.

d) Actuarial calculations

In assessing the present value of the long-term liabilities to employees upon retirement, actuarial methods and calculations are used based on assumptions for mortality rate, staff turnover rate, future salary levels and a discount factor considered by management as reasonable and relevant to the Group (Note № 34).

e) Valuation of investment property

The fair value of investment property, which management considers reasonable and adequate for the Bank, is determined by certified independent appraisers. The valuations are conducted by using various valuation techniques, such as the recoverable amount method, the method of income capitalisation, the method of market analogues, where for each method a weight is set for the purposes of achieving the final fair value of investment property at the end of the reporting period (Note 25).

f) Assets acquired from collateral foreclosure

Assets acquired from collateral foreclosure include assets acquired by the Group as a result of non-performing loans. These assets are measured at the lower of at cost and net realisable value. The net realisable value, which management considers reasonable and adequate for the Group, is determined by certified independent appraisers.

g) Fair value of financial instruments

Where the fair values of financial assets and liabilities on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from the Group's historical observations and observable financial market indicators, where possible. However, where this is not feasible, a degree of judgement is required in establishing fair values. The assumptions include liquidity factors, volatility for longer derivatives and discount rates, early payments and assumptions for non-performance in connection with securities for which assets have been provided as collateral.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.1. New and amended standards and interpretations

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after January 1, 2020);
- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business - adopted by the EU on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 16 "Leases"** - COVID-19-Related Rent Concessions (adopted by the EU on 9 October 2020 and effective at the latest, as from 1 June 2020 for financial years starting on or after 1 January 2020);
- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of amendments to the existing standards has not led to any material changes in the financial statements of the entities within the BDB Group.

2.2 Standards issued but not yet effective and not early adopted

Standards issued but not yet effective or not early adopted up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Bank intends to adopt those standards when they become effective.

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

- **Amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9"** adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023);
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** - Interest Rate Benchmark Reform — Phase 2 adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.2 Standards issued but not yet effective and not early adopted

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at the date of publication of these financial statements (the effective dates stated below is for IFRS as issued by IASB):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after January 1, 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 (effective for annual periods beginning on or after January 1, 2023);
- **Amendments to IAS 1 Presentation of Financial Statements**: Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 16 "Property, Plant and Equipment"** - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.);
- **Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2:** Disclosure of Accounting policies (issued on 12 February 2021);
- **Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors:** Definition of Accounting Estimates (issued on 12 February 2021).

The Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, remains unregulated.

According to the Bank's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Financial instruments

Financial instruments: classification and measurement (IFRS 9)

Recognition of assets

The Group recognises a financial asset or financial liability in the statement of financial position, when and only when it is part of an existing contractual relationship regulating the instrument.

The Group classifies financial assets as subsequently measured at amortised cost, at fair value in other comprehensive income or at fair value through profit or loss, as the case may be, on the grounds of:

1) a business model of the Group for financial assets management
2) the features of the contractual cash flow of the financial asset.

Regardless of its election with regard to the reporting approach, the Group has the option, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, as per the paragraphs below:

1) If the Group has liabilities under insurance contracts whose measurement incorporates current information and financial assets that it considers to be related and that would otherwise be measured at either fair value through other comprehensive income or amortised cost.
2) if the Group has financial assets, financial liabilities or both that share a risk, and that gives rise to opposite changes in fair value that tend to offset each other.
3) if the Group has financial assets, financial liabilities or both that share a risk that gives rise to opposite changes in fair value that tend to offset each other and none of the financial assets or financial liabilities qualifies for designation as a hedging instrument because they are not measured at fair value through profit or loss.

A financial asset is measured at amortised cost, if both of the following two criteria are met simultaneously:

1) The financial asset is held within a business model with the objective to collect their contractual cash flows (Hold to Collect business model); and
2) The contractual terms of the financial asset lead to generation of cash flows that are solely payments of principal and interest on the outstanding interest, on specific dates (SPPI).

A financial asset is measured at fair value in other comprehensive income, if both of the following two criteria are met simultaneously:

1) The financial asset is held within a business model with the objective to collect the contractual cash flows and sell the financial asset, and
2) The contractual terms of the financial asset lead to generation of cash flows that are solely payments of principal and interest on the outstanding interest, on specific dates.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial instruments: classification and measurement (IFRS 9) (continued)

Recognition of assets (continued)

A financial asset is measured at fair value through profit or loss, unless it is measured at amortised cost or at fair value in other comprehensive income in accordance with the above criteria.

Upon initial recognition, the Group may make an irrevocable choice to include in fair value in other comprehensive income subsequent changes to an investment in an equity instrument that is not held for trading or is not a contingent remuneration recognised by a transferee in a business combination to which IFRS 3 applies.

Reclassification of financial assets

When and only when the Group changes its business model for financial asset management, it reclassifies all financial assets affected, in line with the asset classification requirements. If the Group applies such reclassification to financial assets, it shall apply it in the future, from the first day of the first reporting period following the change in business model that results in reclassifying the financial assets. The Group does not recalculate previously recognised profits, losses (including gains or impairment losses) or interest.

Assessment and reporting

Upon initial recognition, in the case of a financial asset or financial liability not stated at fair value through profit or loss, the Group measures a financial asset or a financial liability at fair value, taking into account as a probable increase and/or decrease of the transaction costs which are directly related to the acquisition or origination of the financial asset or financial liability.

Determination of a business model

The Group defines the “business model with the objective to collect their contractual cash flows (Hold to Collect business model)” as a business model where the Group’s financial assets are managed with the objective to generate cash flows through collection of contractual cash flows over the instrument’s lifetime. The Group may use this business model in the event of converting the sale of assets with increased credit risk or in order to reduce the concentration risk. These financial assets are carried at amortised cost if as described above an additional criterion is met that the contractual terms of the financial asset give rise to cash flows, which are only principal payments and interest on outstanding principal, on specific dates (SPPI).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial instruments: classification and measurement (IFRS 9) (continued)

Determination of a business model (continued)
The Group defines the “business model with the objective to collect the contractual cash flows and sell the financial asset” as a business model where the Group’s key management staff have decided that the collection of contractual cash flows and the sale of financial assets are an integral part of the achievement of the business model's objective and includes much more frequent and of higher value sales of financial assets than a business model with the main purpose of holding financial assets to collect contractual cash flows.

These assets are reported as financial assets at fair value through other comprehensive income, if as described above an additional criterion is met that the contractual terms of the financial asset give rise to cash flows, which are only principal payments and interest on outstanding principal, on specific dates (SPPI).

The Group defines “other business models” as a business model that does not include the holding of financial assets for the purpose of collecting contractual cash flows or for the simultaneous collecting of contractual cash flows and selling financial assets. Typically, this process involves actively buying and selling financial assets. These assets are reported as financial assets at fair value through profit or loss.

Financial assets
The Group initially recognises loans, receivables and deposits on the date they were incurred. All other financial instruments (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and renegotiation or modification does not result in the write-off of that financial asset in accordance with IFRS 9, the Group recalculates the gross carrying amount of the financial asset and recognises profit or loss from modification in profit or loss. The gross carrying amount of the financial asset shall be restated as the present value of renegotiated or modified contractual cash flows discounted at the initial effective interest rate on the financial asset (or the credit loss-adjusted effective interest rate for purchased or originated credit impaired financial assets) or, where applicable, the revised effective interest rate, calculated in accordance with paragraph 6.5.10 of IFRS 9. The carrying amount of the modified financial asset shall be adjusted for any incurred costs and charges that are depreciated for the remaining duration of the modified financial asset.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or the Group transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial asset that qualify for derecognition, which is created or retained by the Group, is recognised as a separate asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

In certain circumstances, renegotiating or modifying the contractual cash flows of a financial asset may result in the write-off of the existing financial asset. Where the modification of a financial asset results in the write-off of the existing financial asset and subsequent recognition of the modified financial asset, the modified asset shall be considered a "new" financial asset for the purposes of IFRS 9.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group recognizes the following non-derivative financial assets:

- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income;
- financial assets at amortised cost;

<u>Financial assets at amortized cost</u>

Financial assets measured at amortised cost are financial assets which are held within a “held to collect” business model and that are ‘solely payments of principal and interest (SPPI)’. The Group holds such financial assets within a business model with the objective to hold financial assets in order to collect contractual cash flows within the life of the asset. Such assets are initially measured at fair value plus incremental direct transaction costs. Subsequently, these financial assets are measured at their amortised cost using the effective interest rate, less any impairment losses.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts for the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

In calculating the effective interest rate the expected cash flows are estimated taking into account all contractual terms and conditions under the financial instrument (for example early repayment options, extension options, call options and similar), excluding expected credit losses. The calculation includes all fees and other considerations paid or received by the contract counterparties that are an integral part of the effective interest rate, transaction costs and other premiums or discounts.

The Group accrues impairment for expected credit losses on financial assets at amortized cost for each specific asset, except for receivables from employees (Note 3: Impairment of financial assets). After a thorough review of the quality and impairment testing of standard exposures, the Bank established that as of 31 December 2020, and also in 2019, the expected credit loss on receivables from employees was 0%, and the expected credit loss on receivables from the State budget under the National Program for Energy Efficiency of Multi-Family Residential Buildings (NPEEMFRB) amounted to BGN 151 thousand (as of 31 December 2019: BGN 247 thousand).
Financial assets measured at amortised cost include cash and cash equivalents, receivables from banks, loans and advances to customers, receivables from the State budget, securities and trade and other receivables.

Financial assets measured at amortized cost include cash and cash equivalents, receivables from banks, loans and advances to customers, receivables from the State Budget, securities, commercial and other receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income include equity and debt instruments, and certain cases of loans. Financial assets measured at fair value through other comprehensive income are assets acquired under a business model with the objective of both holding to collect contractual cash flows and selling the financial assets.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

a) the financial asset is held within a business model whose objective is both collecting contractual cash flows and selling the financial assets; and

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The debt instruments are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these debt instruments as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in profit or loss. When an investment is derecognised, the accumulated gains or losses through other comprehensive income are reclassified to profit or loss.

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised through other comprehensive income and accumulated in the revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to reserves.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9 unless the dividends clearly represent a recovery of part of the cost of the investment. Upon disposal of equity instruments from this category each amount recognized in the revaluation reserve of the instruments is reclassified to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition;
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.
- Transaction related costs are recognized in profit or loss upon origination. Financial assets at fair value through profit or loss are measured at fair value and any related changes, including dividend income, are recognised in profit or loss.
- Upon initial acquisition, the Group's management determines whether a financial asset will be held for trading. Usually, management designates derivatives as such instruments.

A derivative is a financial instrument:

- Whose value changes in response to changes in interest rates, security prices, commodity prices, foreign exchange rates, price indices or interest rates, credit ratings or credit indices, or other variables;
- That requires no initial net investment, or one that is smaller than would be required for a contract with similar response to changes in market conditions;
- That is settled at a future date.

When upon entering a specific derivative transaction, the Group defines a position to be hedged and all the requirements of IFRS 9 have been met, the corresponding derivative is recognised as such hedging and it shall be specified whether it hedges:

- deviations in the fair value of a specific asset (fair value hedge),
- differences in the estimated future cash flows (cash flow hedge), or
- the effect of investments in foreign subsidiaries (net investment hedge).

Derivatives are measured at fair value through profit and loss.

Initially, derivative financial instruments are measured at fair value (including transaction costs) and subsequently, they are measured at fair value. Derivatives are accounted for as assets when their fair value is positive and as liabilities when it is negative.

As of 31 December 2020 and 31 December 2019, the Group has no financial assets measured at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Financial assets (continued)

Assets under trust management

The Group provides trust management services that includes holding of or investing in assets on behalf of customers. Assets held under trust management, unless certain recognition criteria have been met, are not included in the Group's financial statements since they are not assets of the Group. Bulgarian Development Bank EAD performs services in its capacity as an investment intermediary in accordance with the provisions of the Public Offering of Securities Act (POSA). Being an investment intermediary, the Group is obliged to comply with certain requirements in order to protect its customers' interests in accordance with the Markets in Financial Instruments Act (MFIA) and Ordinance 38, issued by the Financial Supervision Commission (FSC). Moreover, the Group should also observe the requirements of Directive 2014/65/EU on the Markets in Financial Instruments (MiFID II) and Regulation 600/2014 of the EU on the Markets in Financial Instruments (MiFIR).

The Group has developed and implements organization relating to the conclusion and performance of contracts with customers, the requirement of information from customers, keeping records and storage of client's assets, in compliance with the provisions of the above-mentioned National and European legal acts. The Group has implemented a system of in-house internal control rules and procedures aiming at ensuring its full compliance with the bodies of legislation mentioned above.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. Financial liabilities that are not contingent consideration of an acquirer in a business combination, held-for-trading, or designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

Initially, they are stated at fair value of cash flows received on the origination of the liability, less any transaction costs. Subsequently, any difference between the net cash flows and the residual value is recognised in profit or loss for the period using the effective interest rate method over the term of the liability. The financial liabilities reported by the Group as deposits, borrowings and securities issued are stated at amortised cost.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the gross carrying amount of financial asset or to the amortised cost of financial liability. When calculating the effective interest rate the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all charges and other fees paid to or received by the contractors that are an integral part of the effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Derecognition of financial instruments

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

1) the contractual rights to receive cash flows from the financial asset have expired;
2) the contractual rights to receive cash flows from the financial assets have been transferred, or contractual rights to receive cash flows from the financial asset have been retained, but a contractual obligation has been assumed for their payment in full without material delay to a third party under a ‘pass through’ arrangement, and either:
   - the Group has transferred substantially all the risks and rewards of the financial asset, or
   - the Group has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the asset.

When the Group has transferred its contractual rights to receive cash flows from a financial asset and has neither transferred nor retained substantially all of the risks and rewards of the financial asset nor transferred control of the asset, the transferred financial asset is recognised to the extent of the Group’s continuing involvement in the asset. In this case, the Group recognises the related obligation. The transferred asset and the concomitant obligation are evaluated to reflect the rights and obligations, which the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Full or partial write-off of receivables is initiated in the presence of the respective amount set aside for the specific exposure and at the discretion of the Group company for their uncollectability, respectively incomplete collection, within the usual period, which assessment is based on some the following circumstances:

1. The court actions taken under the Civil Procedure Code, the PPA and the CA have been exhausted and / or the initiation of court actions (respectively the continuation of such actions already taken) is pointless and this has been confirmed by the Legal Department;
2. All collateral has been realized in the course of the court actions;
3. There are no additional discovered properties or other assets owned by the debtor and / or the guarantors and severally liable debtors;
4. Additionally discovered properties or other assets owned by the debtor and / or the guarantors and severally liable debtors are non-sequestrable, i.e. the Bank cannot undertake executive actions towards them, or they are of insignificant value compared to the residual debt;
5. The Bank is not expected to collect amounts from foreclosures of shares of the main debtor and / or of the guarantors and severally liable debtors (if any) in companies and subsequent liquidation of these companies (in case it makes economic sense to initiate such liquidation);
6. There are no reasonable expectations for receiving cash flow from the initiation / continuation of legal actions in respect of the remaining collateral established in favour of the Bank, as it is determined on the basis of relevant legal opinion as unrealizable or difficult to implement due to insurmountable problems of legal nature, or there are real encumbrances in favour of another creditor in sequence prior to the established collateral in favour of the Bank;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Derecognition of financial instruments (continued)

7. The costs for compulsory sale (under Commerce Act, Civil Procedure Code or Special Pledges Act) of the debtor's property and / or of the guarantors and severally liable debtors (if any) would exceed the Bank's expected proceeds from the sale or the reduced value acceptable for the Bank;
8. As a result of an analysis of the security and the possibilities for repayment of the exposure, it has been established that it is not expected to be collected in full;
9. An order has been issued to initiate insolvency proceedings and their suspension, following a court finding that their assets are insufficient to cover the insolvency costs and, at the same time, no severally debtors are available.

In accordance with its Procedure on writing off receivables, the Group also writes off receivables on the basis of a final assessment of uncollectability, regardless of the delay in the usual procedural period, which assessment is caused by the presence of any of the following circumstances:

1. For borrowers, severally liable debtors and guarantors who are legal entities - when traders are written off.
2. For borrowers, severally liable debtors and guarantors who are natural persons - a deceased person without accepted inheritance, or without heirs.
3. If the following circumstances are present (cumulative):
   - all possible enforcement actions for collection of the receivable have been exhausted, or in case there is property owned by any of the liable persons, the costs for its forced sale (under Commerce Act, Civil Procedure Code or Special Pledges Act) would exceed the expected revenues of the Bank from the sale or the reduced value acceptable for the Bank.
   - no more income is expected for repayment of debts - both from enforcement actions and from voluntary repayments.
   - the costs related to taking action to write off the company from the Commercial Register are an expense that is not expected to be reimbursed.

A financial liability is derecognised from the consolidated statement of financial position when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts of the original and new liability is recognised in the consolidated statement of comprehensive income – in profit or loss.

Impairment of financial instruments

IFRS 9 requires the recognition of a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of the impairment depends on the probability of default of the debtor over the next 12 months after initial recognition, unless there has been a significant increase in credit risk, which requires the estimation of expected credit losses (ECL) over the lifetime of the financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial instruments (continued)

The estimate of ECLs is based on all available, reasonable and justified information at the reporting date for past events, the current situation and the use of relevant macroeconomic indicators and reliable forecasts of future economic conditions. The key macroeconomic indicators, used by the Group, are gross domestic product, unemployment, inflation, changes in oil prices, and changes in the USD exchange rate and 3M EURIBOR. Historical analysis (10 years) shows that these indicators have statistically significant correlations – positive or negative – with the level of expected credit losses as follows:

Macroeconomic indicator	Correlation with the movement of non-performing loans volume
GDP growth (Bulgaria)	Negative
Unemployment rate (Bulgaria)	Positive
Inflation (Bulgaria)	Positive
Oil price growth (Europe)	Positive
EURIBOR 3M	Negative
USD/BGN[5]	Neutral

The expected credit losses are measured on the basis of three macroeconomic scenarios – realistic, negative and optimistic, which are used in the calculation of the impairment by applying different weights. For exposures that exceed BGN 5,000 thousand at related party group level or exposures classified in Stage 3, the determination of the impairment amount required for expected credit losses is made on an individual basis and, for the others, on a portfolio basis. The results obtained can be further adjusted and expected credit losses increased or reduced to reflect future risks that cannot be modelled (mainly, legislative or regulatory).

The existence of such risks is established in the periodic analyses of the exposures carried out by the Bank. The prepared individual impairment tests are reported by the responsible business units and "Risk" division to the competent authorities in the Bank, including to the Impairment and Provisions Committee in order to decide on a change of classification, to establish the existence of a restructuring and/or the amount of the impairment provision required.

The Group has drawn up a methodology that introduces criteria for classifying financial assets in three categories (the so-called "stages"), transfer criteria between them and setting an impairment amount depending on the stage in which the underlying asset is classified.
The stages and their characteristics are described below:

- Stage 1 – includes standard (performing) loans without a significant increase in credit risk after initial recognition. The impairment of those assets is based on the probability of default of the debtor over the next 12 months or for a shorter period if the life of the instrument is shorter than one year.

[5] The indicator itself is not significant for the level of non-performing loans, but in the context of the significance of the USD for the determination of the prices of main raw materials, products and services it has indirect influence and, in some cases, it predicts the movements in GDP, inflation and petrol prices.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial instruments (continued)

- Stage 2 – includes assets with a significant increase in credit risk after initial recognition. Such an increase is presumed if the loan is past due for more than 30 days; the debtor is placed on watch; the debtor's credit rating has deteriorated at the reporting date compared to its rating on the date of recognition of the instrument, or the Group expects the credit to be restructured. In this case, the expected credit losses are calculated for the entire lifetime of the asset;
- Stage 3 – includes assets, for which objective evidence exists that they are impaired, such as non-performing loans. The Group has set specific criteria that determine when a debtor is in default. The expected credit losses for these instruments are also calculated for the entire lifetime of the instrument.

The absolute threshold for the transfer of credits among the levels is linked to the internal credit rating determined by the Bank of the borrower concerned. The Group has set a credit rating of 7 as a transition limit to move to Stage 2 and credit rating 8 to move to Stage 3. In addition, the Group monitors relative indicators of increased credit risk in order to determine whether there is a significant deterioration in the risk of exposure default. These indicators are set out in the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment of BDB and are presented in Note 4.1.

A financial asset classified in Stage 1 – Standard (Performing) – is analyzed for impairment on the basis of the probability of default of the debtor during the next 12 months or less, if the life of the instrument or the residual term is less than one year;

A financial asset classified in Stage 2 – Watch – is an asset for which there has been a significant increase in credit risk since initial recognition. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due; the debtor has been reclassified as watch exposure; the debtor's credit rating has deteriorated as at the reporting date compared to its rating as at the date of recognition of the instrument, or the Group expects that the credit will be restructured. In this case, the expected credit losses are calculated for the entire life of the asset;

A financial asset classified in Stage 3 – Non-performing - which is not recognised at fair value through profit and loss, is reviewed at each reporting date to assess whether there is objective evidence of its impairment. A financial asset is impaired when there is objective evidence that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence a financial asset is impaired includes default or delinquency by a borrower, restructuring of a liability to the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, adverse changes in the payment status of a borrower or issuer, economic conditions that lead to failures or the disappearance of an active market for a security. Any asset with default contractual payments over 90 days is categorized as "non-performing".

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial instruments (continued)

Purchased or originated credit-impaired financial assets are assets that are credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime expected credit loss since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates a revaluation gain.

Financial assets measured at amortised cost
The Group considers evidence for impairment of financial assets measured at amortised cost at both individual and collective level. Assets with similar risk characteristics are collectively assessed for impairment.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred. Impairment losses on financial assets measured at amortised cost are calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

Pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment, the understanding of the Group of the impairment on a collective (portfolio) basis is as follows:

„Article 32. (1) Based on a motivated proposal by Risk Department, the bank may designate sub-portfolios of exposures with similar risk characteristics.
(2) The indicators underlying the establishment of a sub-portfolio are controlled and monitored at least once a year in order to identify potential unfavourable dynamics and changes in the risk profile of the portfolio.
Article 33. The amount of the collective impairment is determined in accordance with the methodology adopted by the Bank. It is also possible to develop additional methodologies that take into account specific risk factors for particular sub-portfolios.

Article 34. For groups of financial instruments the credit risk of which has increased significantly since initial recognition, a portfolio assessment can be made taking into account the information that shows a significant increase in credit risk at the level of a group or sub-group of financial instruments. Thus, the Group recognizes expected credit losses over the entire life of financial instruments the credit risk of which has increased significantly, even when there is no such evidence at the level of an individual instrument.

Article 35. (1) When the Group determines whether there has been a significant increase in credit risk and recognizes loss adjustments on a collective basis, financial instruments may be grouped on the basis of common credit risk characteristics with the aim to conduct an analysis to identify a significant increase in credit risk in a timely manner.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial instruments (continued)

<u>Financial assets measured at amortised cost (continued)</u>

(2) By grouping its financial instruments, the Group complies with the principle of not impairing the quality of information available by grouping financial instruments with different risk characteristics. Common characteristics of credit risk include, but are not limited to: a type of instrument; credit risk rating; type of collateral; date of initial recognition; residual term to maturity; industry; geographical location of the borrower; and the relative value of the collateral compared to the financial asset if it affects the probability of default (for example, non-recourse loans in some jurisdictions or loan / collateral ratios).“

Currently, the Group has designated as portfolios for collective impairment its receivables on Energy Efficiency of Multi-Family Residential Buildings National Program (EEMFRBNP), receivables under lease agreements as well as all receivables below BGN 5 million which are not subject to individual measurement.

For the Group, impairment on an individual basis means (again, as defined in the same Policy) an assessment of the expected credit losses based on the exposure’s individual parameters.

1. When the exposure is in Stage 3, an individual model is applied to the expected future cash flows from collateral realisation.

2. When the exposure is in Stage 1 or 2:
   a. a tool is used to compare the exposure’s individual characteristics (such as maturity, payment models, sectors, etc.) with probabilities of non-performance, which have been observed historically with respect to similar exposures, as well as macroeconomic parameters, sector specifics, etc.
   or
   б. an individual matrix for expected future cash flows from operations under going concern scenarios in several (at least two) scenarios with the respective weights with a total amount equal to the probability that no default will occur, as well as an individual matrix for the expected future cash flows from the disposal of collateral in a "non-going concern" scenario with a weight equal to the probability of default.

<u>Financial assets measured at fair value through other comprehensive income</u>

For debt instruments measured at FVTOCI no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investment’s revaluation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial instruments (continued)

Financial assets measured at fair value through other comprehensive income (continued)

The absolute threshold for transferring exposures between levels is related to the internal credit rating set by the Group to the respective borrower. The Group has set a credit rating of 7 for Stage 2 transition limit and a credit rating of 8 for transition to Stage 3. In addition, the Group monitors relative indicators of increased credit risk in order to determine whether there is a significant deterioration in the risk of exposure default. These indicators are set out in the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment of BDB and are presented in Note 4.1. Exposures over BGN 5,000 thousand are reviewed on individual basis and, amounts below this threshold, on a portfolio basis.

Financial guarantees contracts and credit risk guarantees

Financial guarantee contracts are subject to analysis and impairment according to the expected credit loss analysis model. As far as no payment has occurred under these contracts, a conversion coefficient is applied, which may be between zero and one determined on the basis of historical experience, the Bank's understanding of the specific future financing needs of debtors and other relevant forward-looking information. Financial guarantee contracts under which payment on behalf of the Bank has occurred are impaired as loans to the respective beneficiary.

The credit risk guarantees assumed by BDB under the COVID-19 pandemic response programs are analysed and impaired in accordance with a separate model developed by the Bank, taking into account the specifics of both the programs (see subsection "Contingent commitments" in section 4.1 Credit risk, as well as notes 32 and 37) and the beneficiaries, as well as historical data on losses of similar credit products on the Bulgarian market. The calculated provision rates as of 31.12.2020 are 18.7% under the loan guarantee program for legal entities and 36% under the loan guarantee program for individuals and freelance. Under these programs, the Bank reports impairment from expected credit losses at the end of 2020 at the amount of BGN 120,308 thousand (see Notes 32 and 37).

Fair value of financial assets and liabilities (IFRS 13)

Definitions

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group discloses information about the fair value of those assets and liabilities for which there is market information available and the fair value of which significantly differs from their carrying amount.

The fair values of financial assets and liabilities that are quoted in active markets and for which there is market information available are based on announced market prices or closing prices. The use of real market prices and information reduces the need for management assessment and assumptions, as well as the uncertainty related to the determination of fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial instruments (continued)

Fair value of financial assets and liabilities (IFRS 13) (continued)

Definitions (continued)

The availability of real market prices and information varies depending on products and markets, and changes according to the specific events and the general financial market conditions. For some of the other financial instruments the Group determines the fair values by using of an evaluation method based on the net present value. The net present value calculation is provided by market yield curves and credit spreads, where necessary, for the respective instrument. The purpose of evaluation techniques is to determine fair value, which would be determined by direct market participants. The Group has established control environment with respect to the assessment of fair values.

The fair values of financial instruments not traded in active markets (such as derivatives not traded on the market), which are an object of a transaction between the parties, are determined using valuation techniques. These valuation techniques adhere to the use of market data when available and as less as possible to the use of specific assessments of the Group.

The fair value of equity assets not traded on the market (shares and interests in companies) is measured using one or more eligible measurement methods under IFRS 13, except where it has considered that the cost of acquisition (cost) best reflects fair value. These methods are:

- The market method - using prices and other relevant information generated by market transactions that relate to similar or identical assets, liabilities or groups of assets and liabilities (businesses)
- The cost method - using the amounts that would currently be needed to replace a specific asset or build a similar capacity and functionality asset (present value of replacement)
- The income method - which converts future amounts (cash flows or income and expenses) into a single current (discounted) amount, reflecting current market expectations for these future amounts.

The choice of method used depends on the characteristics of the business, the ability to identify similar transactions or similar companies, as well as the expected return associated with the structure of the transaction. Upon subsequent measurement, the Group takes into account the methods used in the initial / previous fair value measurement and analyzes the differences in values between the periods. When changing methods and / or weights, the Group provides justification as to why it is necessary and how the new approach reflects as much as possible the fair value, as well as its change over time.

The Group classifies as financial assets at fair value through other comprehensive income its investments held in the form of non-publicly traded companies' shares / entities (less than 34% of their capital), which have been acquired with the aim to develop their business. The Group measures these financial assets at fair value using eligible measurement methods under IFRS 13, except where it has considered that the cost of acquisition (cost) best reflects fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Impairment of financial instruments (continued)

Fair value of financial assets and liabilities (IFRS 13) (continued)

Fair Value Hierarchy

The Group applies the following hierarchy for measuring and disclosing the fair value of financial instruments using valuation techniques:

- Level 1 – quoted (unadjusted) market prices in active markets for identical instruments;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly or indirectly. This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;
- Level 3 – unobservable inputs for an asset or a liability. This category includes all instruments, for which the valuation technique does not include observable inputs and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair value hierarchy of financial assets and liabilities is disclosed in Note 5.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Hedge accounting (IFRS 9)

Hedge accounting requires more extensive disclosures regarding the risk management activity. The Group's business model does not provide taking of significant market or foreign currency positions. Insofar as the Group is exposed to currency or interest rate risk, it takes appropriate measures to minimize that risk: matching the amount of active and passive exposures in the relevant currency, providing coverage of interest-bearing fixed-rate assets with similar interest-bearing fixed-rate liabilities.

The Group fully assumes the market risk arising out of its securities regardless of whether they have been held to collect cash flows or to sell.

The Group has no foreign subsidiaries to be consolidated.

The Group does not report active financial instruments designated as hedging relationship and therefore, the requirements of IFRS 9, applicable to hedges, have no effect on the Group's financial statements.

Cash and cash equivalents

For the purposes of the cash flow statement cash equivalents comprise cash in hand, cash in current accounts with other banks, deposits and placements with other banks – payable at sight and/or with original maturity of up to 3 months, including repo deals with original maturity of up to 3 months, as well as unrestricted (not blocked) balances with the Central Bank (BNB). The Group maintains a minimum statutory reserve according to the requirements of BNB and for the purposes of cash flow statement it includes these funds included as a component of Cash and cash equivalents. They are presented in the consolidated statement of financial position at amortised cost.

Leases (IFRS 16)

The Group as a lessor

Leases where a company from the Group is a lessor are classified as a finance or operating lease. In cases when under the lease contract all the risks and rewards of using the asset are transferred to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

On the inception date of the lease, the Group recognises the assets held under a finance lease agreement in its statement of financial position and presents them as a receivable at an amount which is equal to the net investment in the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial instruments (continued)

Leases (IFRS 16) (continued)

The Group as a lessor (continued)

The Group uses the interest rate set in the lease to determine the amount of the net investment. The interest rate set in the lease is fixed so that the initial direct costs are automatically included in the net investment.

Finance lease income is allocated during accounting periods to reflect a constant recurring rate of return on the Group's net investment.

Any modification to a lease is assessed and reflected in accordance with the requirements of IFRS 16 Leases.

The starting date of including a lease contract in the portfolio of a company of the Group is the date of providing the asset for use by the lessee by signing the acceptance – transfer protocol for the asset. In the assets of the statement of financial position the finance lease receivable is reported based on effective principal. Interest is recognised as income per month by the effective interest method.

The Group applies the derecognition and impairment requirements of financial assets under IFRS 9 Financial Instruments.

A seized asset under a terminated contract is reported as an asset for sale and is subject to subsequent disposal – direct sale or new lease. It is not reported as a fixed tangible asset unless it is offered under an operating lease agreement. Assets held for operating lease purposes are recognized as property, plant, equipment in the statement of financial position of the company /lessor/.

3.2 Other assets

Taxes (IAS 12)

Current income taxes are determined by the Group in accordance with the Bulgarian legislation. The income tax due is calculated on the basis of the taxable profit for the period determined in accordance with the rules established by the tax authorities on the grounds of which taxes are paid (reversed).

The tax effect relating to transactions and other events reported in the separate statement of comprehensive income is recognised also in the separate statement of comprehensive income and the tax effect relating to transactions and other events reported directly in equity is also recognised directly in equity.

Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither the accounting profit nor taxable profit or (taxable loss).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

Taxes (continued)

Deferred income tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised except where the deferred income tax asset arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither the accounting profit nor taxable profit or (loss).

Deferred taxes are recognised as income or expense and are included in the net profit for the period, except in cases, when these taxes arise from transactions or events, reported for the same or another period directly in equity. Deferred taxes are charged to or deducted directly from equity, when they relate to items, which have been charged to or deducted from equity in the same or in a different period.

Property, plant and equipment (IAS 16)

Items of property, plant and equipment are presented on the consolidated financial statements at historical cost of acquisition, less any accumulated depreciation and impairment losses. The Group recognises a fixed asset when its value is equal to, or exceeds, BGN 700.

Initial recognition

Upon their initial acquisition, items of property, plant and equipment are valued at acquisition cost, which comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to working condition. Directly attributable costs include: costs for site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes, etc.

Subsequent measurement

The approach chosen by the Group for subsequent measurement of property, plant and equipment, is the cost model under IAS 16 – acquisition cost less any accumulated depreciation and any accumulated impairment losses.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised net in other operating income/expenses in profit or loss.

Depreciation method
The Group applies the straight-line depreciation method for property, plant and equipment. The useful life per group of assets is as follows:

- buildings – 50 years
- bank equipment and computers – 5 years
- motor vehicles – 5 years
- fixtures and fittings – 6.7 years

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

Depreciation method (continued)

The useful life by groups was not changed compared to 2019.

The useful life of the individual groups of assets is determined by the management considering: their physical wear and tear, features of the equipment, intentions for future use and expected obsolescence. The useful life of equipment is reviewed at each year-end and adjusted prospectively in case that any material deviations from future expectations concerning the terms of use are found.

Subsequent costs

Repair and maintenance expenses are recognised as current in the period in which they were incurred. Subsequent expenses relating to an item of property, plant and equipment that have the nature of replacement of certain components or improvements and restructuring are capitalised to the carrying amount of the relevant asset and its remaining useful life to the date of capitalisation is reassessed accordingly. At the same time, the unamortised portion of replaced components is derecognised from the assets' carrying amount and recognised as current expenses for the period of restructure.

Intangible assets (IAS 38)

Intangible assets are presented on the consolidated financial statements at cost less accumulated amortisation and any accumulated impairment losses. They include software products and software licences.

The Group applies the straight-line depreciation method for the intangible assets with a determined useful life of 5 years.

The carrying amount of property, plant and equipment and intangible assets is subject to review for impairment when events or changes in circumstances indicate that their carrying amount might exceed their recoverable amount. Impairment losses are recognised in the consolidated statement of comprehensive income.

Property, plant and equipment and intangible assets are derecognised from the consolidated financial statement when permanently withdrawn from use (upon retirement), when no future economic benefits are expected from their use or on disposal. Any gains or losses on disposal of individual assets from the groups of property, plant and equipment and intangible assets (determined as the difference between the net sales proceeds and the carrying amount of the asset at the date of the sale) are recognized net in Other operating income/(expenses) in the statement of comprehensive income.

Investment property (IAS 40)

The Group's management uses this category upon lease of assets acquired from collateral foreclosure on loans. Investment property is measured initially at cost plus any transaction costs. Subsequent to initial recognition, investment property is recognised at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

Investment property (IAS 40) (continued)

Any gain or loss due to changes in the fair value of investment property is recognised in the profit or loss in the period in which it has occurred. The fair value of investment property is determined on the basis of a valuation made by an independent appraiser.

Investment property rental income is presented as other operating income, while operating expenses directly or indirectly relating to the generated rental income are presented as other operating expenses. Investment property is derecognised on disposal or upon withdrawal from use (retirement) when no future economic benefits are expected from its disposal. Any gains or losses on derecognition of investment property are recognised in the profit or loss in the period in which they have occurred.

Assets held for sale (IFRS 5)

Assets are classified as held for sale, if their carrying amount will be recovered through a sale and not through a continuing use in the Group's operations or through renting or lease. Assets held for sale are stated initially at cost, with the transaction costs being taken into account in the initial measurement. Usually, these assets have been initially accepted by the Group as collateral and subsequently acquired as a result of a "debt against property" exchange by borrowers that do not perform their obligations in accordance with the agreed contractual terms.

Assets classified in this group are available for immediate sale in their present condition. Management is usually engaged actively and performs actions to realise a sale transaction within at least one year after the date of classification of the asset in this group.

Assets classified as held for sale are presented in the consolidated statement of financial position separately and measured at the lower of their carrying amount and their fair value less the estimated direct costs to sell.

The assets within this classification group are not depreciated.

If these assets are not realised within 12 months or 24 months in case the requirements of IFRS 5 for term extension are met, they are transferred to Assets, acquired from collateral foreclosure.

Assets acquired from collateral foreclosure (IAS 2)

Assets acquired from collateral foreclosure that are not realized within 12 months or 24 months in case the requirements of IFRS 5 for term extension are met, they are transferred to Assets, acquired from collateral foreclosure. They are measured at the lower of cost and net realisable value in compliance with the requirements of IAS 2 Inventories.

Cost of the assets acquired from collateral foreclosure is the sum of all direct costs incurred on the acquisition of the assets and other expenses incurred on bringing them to their current location and condition. The net realisable value is the estimated selling price in the ordinary course of business less estimated costs to complete the trade cycle and costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Other assets (continued)

Assets acquired from collateral foreclosure (IAS 2) (continued)

The impairment of these assets is calculated in accordance with the Group's accounting policy based on the expected realisation of the assets acquired from collateral foreclosure. The impairment of the assets acquired from collateral foreclosure is recognised in the statement of comprehensive income. The Group's management is of the opinion that the carrying amount of the assets acquired from collateral foreclosure is the best estimate of their net realisable value at the date of the statement of financial position. Further details are provided in Note 27.

Impairment of non-financial assets (IAS 36)

The carrying amounts of the Group's non-financial assets, other than investment property, inventory and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, then the asset's recoverable amount is estimated. For intangible assets with indefinite useful life or not yet brought into use, the recoverable amount is estimated annually. An impairment loss is recognised always when the carrying amount of an asset or a cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised with respect to CGUs are allocated to reduce the carrying amount of the assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised.

3.3. Liabilities

Financial liabilities

The recognition and measurement of financial liabilities is described in section 3.1 Financial instruments.

Leases (IFRS 16)

IFRS 16 defines the principles of recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor"). IFRS 16 requires lessees to recognize most leases in the statement of financial position and to apply a single model upon recognition of all leases, with some exceptions. Lessor accounting under IFRS 16 is substantially unchanged. The standard is applied by the Bank using the modified retrospective approach.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

Leases (IFRS 16) (continued)

For leases previously classified as finance lease the right-of-use assets and lease liability are measured at the same amounts as of the date of initial application as they were recognized according to IAS 17 right before initial application.

The Group as a lessee

The companies from the Group assess whether a contract is or contains a lease, at inception of the contract.

The companies from the Group recognise a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which they are the lessees, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the companies from the Group use their incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented in a separate item in the statement of financial position under Lease Liabilities.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The company premeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

Leases (IFRS 16) (continued)

The Group as a lessee (continued)

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is premeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that a company from the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented in separate item in the statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss in the statement of comprehensive income.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

Leases (IFRS 16) (continued)

The Group as a lessee (continued)

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Pension and other payables to personnel under the social security and labour legislation (IAS 19)

According to the Bulgarian legislation, the Group is obliged to pay contributions to social security and health insurance funds. The employment relations of the employees with the Group, in its capacity of an employer, are based on the provisions of the Labour Code.

Short-term employee benefits

Short-term employee benefits of the Group in the form of salaries, bonuses and social payments and benefits are recognised as an expense in the consolidated statement of comprehensive income in the period in which the respective service has been rendered or the requirements for their receipt have been met, and as a current liability at their undiscounted amount. The Group’s obligations to make social security and health insurance contributions are recognised as a current expense and liability at their undiscounted amount together and in the period of accrual of the respective benefits they relate to.

At the end of each reporting period the Group assesses and reports the expected costs of accumulating compensated absences as the amount that is expected to be paid as a result of the unused entitlement. The assessment includes the estimated costs of employee’s remuneration and the statutory social security and health insurance contributions owed by the employer on these amounts.

Long-term retirement benefits

In accordance with the requirements of the Labour Code, the employer is obliged to pay to its personnel upon retirement an indemnity that depending on the length of service with the entity varies between two and six gross monthly salaries as of the date of employment termination. In their nature, these are defined benefit plans.

The calculation of the amount of these liabilities requires the involvement of qualified actuaries in order to determine their present value at the date of the consolidated financial statements, at which they are included in the separate statement of financial position, adjusted with the amount of the actuarial gains and losses, and respectively, the change in their value, including the recognised actuarial gains and losses – in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

Pension and other payables to personnel under the social security and labour legislation (IAS 19) (continued)

Long-term retirement benefits (continued)

Past service costs are recognised immediately in the separate statement of comprehensive income in the period in which they were incurred.

At the end of each reporting period, the Group assigns certified actuaries who issue a report with calculations regarding the long-term retirement benefit obligations. For the purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the future cash flows, which are expected to be paid within the maturity of this obligation, and by applying the interest rates of long-term government bonds denominated in Bulgarian leva.

Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments. Actuarial gains and losses from changes in demographic and financial assumptions upon retirement for assured length of service and age are recognised in the consolidated statement of comprehensive income.

Termination benefits

In accordance with the provisions of the Labour Code, the employer is obliged, upon termination of an employment contract prior to retirement, to pay indemnities as follows:

- for non-observed preliminary notice: one gross monthly salary;
- due to closing down the enterprise or part of it, outlays, reduction of the volume of work and work stoppage for more than 15 days, etc.: one gross monthly salary;
- upon termination of the employment contract due to illness: two gross monthly salaries;
- for unused annual paid leave: for the respective years of the time recognised as service period.

The Group recognises employee benefit obligations in the event of employment termination before the normal retirement date when it is demonstrably committed, based on an announced plan, to either terminating the employment of current employees without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits failing due more than 12 months are discounted to and presented in the consolidated statement of financial position at present value.

Provisions and contingent liabilities (IAS 37)

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the liability. Provisions are measured on the basis of the best management's estimate at the end of reporting period of the expenses necessary to settle the particular obligation. The estimate is discounted if the obligation is long-term.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Liabilities (continued)

Provisions and contingent liabilities (IAS 37) (continued)

Contingent liabilities are obligations arising from past events, the existence of which can be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the Group, or it is not probable that an outflow of resources will be required to settle the obligation. They are not recognised in the consolidated statement of financial position but are subject to special disclosure.

Financial guarantee contracts (IFRS 9)

Financial guarantee contracts are contracts that require the issuer of the guarantee to make specified payments to reimburse the holder as a result of the failure of a third party - debtor to comply with commitments made that have been guaranteed. Financial guarantee contracts are initially measured at fair value, whereas it is accepted that the guarantee's fair value on the date of its issuance is the premium received at inception, if any. No receivables for the future premiums are recognized. Commission fee income is deferred on a straight-line basis over the period, to which such fees refer.

Subsequently, the Group's liabilities under financial guarantee contracts are measured at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the B Group's revenue recognition policies. The expected credit losses, related to the financial guarantees issued, are recognised in the statement of comprehensive income, under the heading Impairment of financial assets. The likelihood of an obligation for payment by the Group under such contracts is estimated based on historical experience with similar instruments.

3.4 Capital

Share capital

The share capital is stated at the nominal value of shares issued and paid. Any proceeds from shares issued over their nominal value are reported as share premium.

Expenses directly relating to the issuance of new shares are deducted from the capital net of any associated taxes. Dividends on ordinary shares are recognised in the period in which they were approved by the shareholders. Dividends for the period, which have been announced after the date of preparation of the financial statements, are disclosed as events after the date of the financial statements.

Dividends

An obligation for cash payables to the owners is recognised when the distribution has been approved by them and no longer depends on the Group. The corresponding amount is written off directly from equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Income and expenses

Interest income and interest expenses (IFRS 9)

Interest income and interest expenses are recognised in the statement of comprehensive income on an accrual basis for all interest-bearing instruments except for those measured at fair value through profit or loss, using the effective interest rate method based on the actual price of acquisition or the applicable floating interest rate. Interest income and interest expenses include the amortisation of any discount or premium, or any other differences between the original carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income includes interest income on debt instruments measured at fair value through other comprehensive income, interest on deposits with other banks, interest on loans and advances to customers, fees and commissions on loans and advances to customers, which are an integral part of the effective yield of the financial instrument.

Interest expense is recognised on an accrual basis and comprises the interest accrued on deposits of customers and banks, as well as on loans received and other borrowings, fees and commissions on loans received, which form an integral part of the effective interest expense.

For exposures classified in Stages 1 and 2, the Bank recognizes interest income based on the effective interest rate method accrued on their gross carrying amount for expected credit losses. For exposures classified in Stage 3, the Bank recognizes interest income based on the effective interest rate method accrued on their amortised cost.

The Bank also holds investments and assets in countries with negative interest rate levels. The Bank discloses the interest paid on such assets as interest expense with additional disclosure in Note 6.

Revenue from contracts with customers (IFRS 15)

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers, regardless of the type if transaction or industry, requiring the Group (1) to identify the contracts with customers, (2) to identify the performance obligations in the contracts, (3) to determine the transaction price, (4) to allocate the transaction price to the performance obligations, and (5) to recognise revenue when each performance obligation is satisfied.

The Group has identified the following performance obligations under IFRS 15:

- Transaction-related services – revenue is recognised over time because the customer simultaneously receives and consumes the benefits. Due to the short time period of performance of the service revenue is recognized when the service is provided. The fees for these services are based on the Group’s tariff and represent a fixed amount per transaction corresponding to the customers' benefit transferred. Considering the above circumstances, the Group applies the practical expedient under IFRS 15, paragraph B16, namely, to recognise revenue in an amount it has the right to withheld in accordance with the Tariff. Under IAS 18, the Group used to recognise revenue by applying the accrual principle and thus, it recognised revenue in the same way.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Income and expenses (continued)

Revenue from contracts with customers (IFRS 15) (continued)

- Issuance of guarantees and letters of credit – revenue is recognized over time because the customer simultaneously receives and consumes the benefits. The transfer of the benefits to the customer is consistent over time and thus, the Group uses a straight-line method for measuring the progress of the contract, which in turn results in a straight-line amortisation of the fees over the contracted period. The fees for these services are fixed, calculated depending on the amount of the guarantee or the letter of credit. Under IAS 18, the Group used to recognize revenue from the fixed fee over the term of the contract on a straight-line basis, which in substance is identical with the accounting policy under IFRS 15.
- Deposit maintenance – revenue is recognised over time because the customer simultaneously receives and consumes the benefits. The fees for these services are based on the Group's Tariff and represent a fixed monthly amount corresponding to the customers' benefit transferred. Considering the above circumstances, the Bank applies the practical expedient under IFRS 15, paragraph B16, namely, to recognise revenue in an amount it has the right to withheld in accordance with the Tariff. Under IAS 18, the Group used to recognise revenue by applying the accrual principle and thus, it recognised revenue in the same way.
- Brokerage operations for which the Group receives agent's commissions - revenue is recognised at a point in time upon the provision of the brokerage service as the Group operates as a broker. Considering the above circumstances, the Group recognizes revenue that is equal to the amount of the commission fee for the performance of the brokerage service. The commission fee is the net amount to be withheld by the Group after paying the portion due to the third party to which / whom the Group has mediated to perform the services of that third party.

Fees for servicing bond issues are fees for the Bank to perform the function of a trustee bank on a bond issue of a public interest entity. The fee is charged and paid periodically, in accordance with a contract.

Income from funds trusted in custody consists of fees for managing funds provided by the Ministry of Finance in relation to a loan from Kreditanstalt für Wiederaufbau extended to the Ministry of Finance. These fees are recognized when due under a contract.

The Group – except for certain operations provided to its employees – earns no income from retail banking services: the amount of deposits accepted as at 31 December 2020 is BGN 7,427 thousand and the number of accounts opened is 350. The Group has not analysed in detail the potential effect of such services on revenue due to its limited exposure to retail customers and the absence of branch network.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Income and expenses (continued)

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the Group's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign currency transactions are translated into BGN at the exchange rate of BNB prevailing at the date of the transaction. Receivables and liabilities denominated in foreign currency are revalued on a daily basis. At the end of the year, they are translated in BGN at the closing exchange rates of BNB, which for the main currencies as of the date of the consolidated financial statements are the following:

Foreign currency	31 December 2020	31 December 2019
USD	1.59386	1.74099
EUR	1.95583	1.95583

Since 1999 the Bulgarian Lev (BGN) has been fixed to the Euro (EUR), the official currency of the European Union, at ratio of BGN 1.95583/ EUR 1.0

Net gains or losses on changes in exchange rates, which have incurred from revaluation of receivables, liabilities, as well as from foreign currency transactions, are presented on the consolidated statement of comprehensive income in the period in which they have occurred.

4. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Group is exposed to a variety of risks that, if occur, could result in formation of losses and deterioration of the Group's financial stability. These risks are identified, measured and monitored through various control mechanisms in order to be managed and to prevent undue risk concentration. The process of risk management is essential for the Group's profitability and existence.

The risk management within Bulgarian Development Bank Group is a complex of methods and procedures used by the Group for identifying, measuring and monitoring its risk exposures. The Group manages the following main categories of risk:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk.

When managing the risks, the Group applies policies and procedures relevant to the nature and complexity of its activity, which are based on best practices in banking industry.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management structure

The main units that are directly responsible for risk management are as follows:

For Bulgarian Development Bank EAD (the Parent company, the Bank):

Risk management is performed by:

- Supervisory Board – performs overall supervision of risk management;
- Management Board – responsible for the overall risk management approach and for approving risk management strategies, principles and specific methods, techniques and procedures;
- Risk Committee – responsible for exercising control over the implementation of the risk management policies by various types of risk, as well as the adequacy of the Bank's risk profile to the tasks assigned to it.
- Committee on Assets and Liability Management (ALCO) – responsible for the strategic management of assets and liabilities and for market risk management, including liquidity risk management, related to the assets and liabilities.
- Provisions and Impairment Committee – analyses credit transactions from the perspective of credit risk management for the loan portfolio in general, as well as of the level of credit deals and borrowers;
- Executive Directors and members of the Management Board – exercise current operating control of the maintenance and monitoring of the limits set for a particular type of risk and the application of the established procedures.
- The Central Bank exercises supplementary supervision of risk management by requiring periodically regulatory reports and exercising subsequent control on the compliance with the statutory maximum levels of exposure to certain risks.

For the subsidiary National Guarantee Fund EAD (the Fund)

The main units responsible for the management of risks are:

- Supervisory Board and Management Board of BDB EAD (the Parent company) – perform overall supervision of risk management; take decisions for total exposure to group of related parties to National Guarantee Fund EAD over BGN 5 million, and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount;
- Board of Directors – responsible for the overall approach towards risk and approves risk management strategies, principles and specific methods, risk management techniques and procedures;
- Provisions Committee – analyses the guaranteed portfolio in terms of overall credit risk management of the whole portfolio, as well as of each guarantee deal and each beneficiary of the guarantee itself.
- Risk and Monitoring Department — performs monitoring of the guaranteed portfolios and the collateral provided. At least annually an inspection over the fulfilment of the economic and social requirements for the SME using a guarantee from National Guarantee Fund EAD is carried out.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management structure (continued)

For the subsidiary BDB Micro Financing EAD (former Microfinancing Institution Jobs EAD) (the Company):

The main units responsible for the risk management are:

- Supervisory Board and Management Board of BDB EAD (the Parent company) – perform overall supervision of risk management; take decisions for total exposure to group of related parties to BDB Micro Financing EAD (former Microfinancing Institution Jobs EAD) over BGN 5 million, and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount;
- Board of Directors – responsible for the adoption of risk management rules and procedures; exercising control over the risk factors of the Company and making decisions within their powers; as well as for conducting analyses of all credit transactions exceeding BGN 100 thousand in view of credit risk management upon their approval;
- Credit committee – monitors and analyses on an ongoing basis the loan and lease portfolio of the Company in terms of credit risk, including by individual transactions;
- Credit Council – analyses credit and leasing transactions in terms of credit risk management upon their approval and / or renegotiation;
- Operational Management (Executive Director and Deputy Executive Directors) – organises the activities for the implementation of the Rules for Risk Management adopted by the Board of Directors; creates a work organisation that ensures compliance with the limits and risk levels set; exercises control over the compliance of the risk analysis, measurement and evaluation procedures with the internal documents adopted by the Board of Directors;
- Risk Management Department – develops and implements a risk management system; prepares and submits to the Board of Directors periodic reports for assessing the operational risks, including the observance of the limits, and reports on an ongoing basis to the Operational Management of the Company; performs initial and ongoing validation of the risk assessment methods; examines the inputs needed for the risk assessment in accordance with applicable principles of reliability and sufficiency.

For the subsidiary BDB Leasing EAD (the Company):

Risk management is performed by:

- Supervisory Board and Management Board of BDB EAD (the Parent company) – perform overall supervision of risk management; take decisions for total exposure to group of related parties to BDB Leasing EAD over BGN 5 million, and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount;
- Board of Directors – responsible for the adoption of risk management rules and procedures; exercising control over the risk factors and making decisions for exposures over BGN 5 million;
- Procurator and member of the Board of Directors jointly – make decisions for exposures up to BGN 200 thousand;

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management structure (continued)

For the subsidiary BDB Factoring EAD (the Company):

The main units responsible for the risk management are:

- Supervisory Board and Management Board of BDB EAD (the Parent company) – perform overall supervision of risk management; take decisions for total exposure to group of related parties to BDB Factoring EAD over BGN 5 million, and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount;
- Board of Directors – responsible for the adoption of risk management rules and procedures; exercising control over the risk factors of the Company and making decisions within their powers; as well as for conducting analyses of all credit transactions in view of credit risk management upon their approval;
- Operational Management (Executive Director) – organises the activities for the implementation of the Rules for Risk Management adopted by the Board of Directors; creates a work organisation that ensures compliance with the limits and risk levels set; exercises control over the compliance of the risk analysis, measurement and evaluation procedures with the internal documents adopted by the Board of Directors;
- Risk Management Department – develops and implements a risk management system; prepares and submits to the Board of Directors periodic reports for assessing the operational risks, including the observance of the limits, and reports on an ongoing basis to the Operational Management of the Company; performs initial and ongoing validation of the risk assessment methods.

For the subsidiary Capital Investment Fund AD:

Risk management is performed by:

- Supervisory Board and Management Board of BDB EAD (the Parent company) – perform overall supervision of risk management; take decisions for total exposure to group of related parties to Capital Investment Fund AD over BGN 5 million, and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount;
- Board of Directors – responsible for the adoption of risk management rules and procedures; exercising control over the risk factors and making decisions for all exposures;

For the subsidiary TC Maritsa EOOD:

The risk management functions are exercised by the operational units – General Manager and Finance Manager. The activity of TC Maritsa does not include financial assets acquisition and management.

Measurement and management of major risks

Management of the Group companies has adopted a set of internal rules and procedures for measuring various risks, which are based on statistical models and best international banking practices, as well as on the historical experience of the Group itself.

Risk monitoring and management are primarily based on limits. Those limits reflect on the Group's strategy and its market position, as well as on the level of risk that can be borne. Reports on the specific types of risks are periodically prepared for the purpose of subsequent analysis and possible adjustments of already set limits.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk

Credit risk is the risk of potential losses due to a failure of the Group's customers to discharge their contractual obligations in connection with receivables and financial instruments held by the Group, incl. country (sovereign) risk, contractor's risk and settlement risk, and credit risk of concentration.

Credit risk is the main risk for the Group and therefore, its management is fundamental for its activity. Credit risk management is performed in accordance with the Bulgarian Development Bank EAD Act and the effective laws and regulations of the Republic of Bulgaria regulating credit activity, as well as the international regulations and best banking practices, and the requirements of IFRS.

In assessing and managing credit risks (including the counterparty risk) of its exposures, the Group applies internal rating generation models. These internal rating models depend on the specifics of the object being rated.

The so-developed rating models for credit risk assessment of corporate clients of the Group are based on an analysis of historical data and the counterparty's and its relating parties' current financial position; their history and behaviour in servicing their liabilities to other contractors; future cash flow analyses; sources of servicing the existing and any potential future liabilities to the Group, and other parameters specific to a particular transaction. Credit portfolio quality monitoring, control and assessment units are established and function within the Group. Credit portfolio current monitoring, reporting and management procedures and mechanisms are implemented, which require periodical, and if necessary, extraordinary, reports on the financial and credit status of each borrower and other liable persons. There is an „Early Warning Procedure for Corporate Credit Clients", which includes an early warning system of signals and actions.

In managing its credit risk, the Group applies an intra-bank system of limits that is subject to periodic review and updating.

There is a specialized unit functioning within the Group, which is in charge of the risk assessment both at the customer level and at the exposure level, where the solvency level is assessed and monitored throughout the entire loan term - from application to full repayment. The credit risk is partially reduced also by applying the secured credit line technique through accepting different types of collateral, where at any point in time the valuation of collateral shall not be older than 12 months.

The Group forms impairment on exposures depending on the borrower's and / or group of related clients' risk profile based on conducted individual impairment tests.

The exposures in the Group's corporate credit portfolio are classified mainly in three categories depending on the existence of indications of impairment – changes in the objective indicators on the basis of which the initial measurement and subsequent monitoring of exposure / customer are carried out, which would result in changes in cash flows from financial assets, including default in payment due by the borrower: Stage 1: „Standard" (with assigned internal credit ratings from 1 to 6, incl.; Stage 2 "Watch" or "Forborne" (with assigned internal credit ratings of 7) and Stage 3 „Problematic/Non-preforming" (with assigned internal credit ratings of 8, 9 or 10). These indicators are set out in the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment of BDB and are presented in Note 4.1. Loans over BGN 5,000 thousand are reviewed for existence of these indicators on individual basis and, amounts below this threshold, on a portfolio basis.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

In the case of customers, for which there are currently no indications of increased risk, the Group periodically (at least once a year) reviews the financial and legal status, including the collateral accepted, in order to establish the need for a change in the percentage of impairment for loss risk and / or change in the assessment of the degree of credit risk. Clients with a higher credit risk are subject to a review in every 6 months and those classified as „problematic/non-performing“, in every three months.

In follow-up of the recommendations of the Basel Committee and their transposition into regulations within the European Union and in particular, Regulation 575/2013/EU and Directive 2013/36/EU, the commercial banks are required to implement in their internal regulations an in-house rating system that allows them to achieve comparability with the borrowers' official crediting rating assigned by recognized external credit rating institutions, which adopts the scale, used worldwide, of ten credit rating categories, including two categories for non-performing loans.

The Group has developed a detailed internal normative base, comprising Policy and rules for determining the impairment due to uncollectability of risk exposures, Methodology for credit risk analysis and assessment of Bulgarian Development Bank EAD, and Credit activity manual of BDB, ensuring full compliance of the policy and procedures for determining internal credit ratings with the above EU regulations. The amount of the impairment is calculated as the difference between the current amount of the amortised cost of the customer's exposure to the Group and its recoverable amount.

The Group accrues impairment on a portfolio basis for its receivables on the EEMFBNP and exposures to individuals.

Aiming at minimizing and reducing the credit risk, the Group accepts collateral in accordance with its in-house rules. It is a common practice of the Group to require collateral from the borrowers that is equal to at least 100% of the agreed loan amount, and valuations from accredited independent valuers are required.

Based on a Guarantee letter from year 2003 and the subsequent annexes signed with the European Investment Fund (EIF), the parent company (the Bank) participates in the EU SME Guarantee Facility under conditions determined by the long-term EU Program on SMEs. EIF is committed to provide a direct guarantee covering 50% of the remaining loss on the principal and interest of each loan, included in the sub-portfolio of the Bank, formed on the basis of the conditions of the agreement, but not exceeding EUR 2,520 thousand (BGN 4,929 thousand). The Bank has applied reduced requirements in, accepting collaterals for the EIF-guaranteed portfolio of loans. As of 31 December 2020, the total exposure on EIF-guaranteed loans amounted to BGN 735 thousand (31 December 2019: BGN 735 thousand). This amount includes the utilised but not yet repaid portion of the loans, as well as the BDB's commitments on unutilised loans.

The payment engagement of EIF to date amounts to BGN 3,563 thousand (31 December 2019: BGN 3,563 thousand), whereas the losses covered by EIF amount to BGN 364 thousand (31 December 2019: BGN 364 thousand).

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

In November 2016, the parent company (the Bank) signed a counter-guarantee agreement with the European Investment Fund (EIF) under the COSME program for small and medium-sized enterprises. The COSME program is implemented with the support of EFSI (the European Fund for Strategic Investment), known as the "Juncker Plan". The parent company (the Bank) is able to cover up to 60% of the risk on loans extended to SMEs by commercial banks it will partner with. Half of this risk will be counter-guaranteed by EIF and the total amount of the counter-guarantee is EUR 10 million. By using the resource guaranteed by the COSME program, the banks-partners to the parent company (the Bank) will be able to extend investment loans and loans for working capital, bank guarantees and revolving loans. The maximum amount of loans extended is EUR 150,000. The term of repayment varies from 1 to 10 years.

As at 31 December 2020, there was no commitment on the counter-guarantee agreement.

Off-balance sheet commitments, primarily the unutilised portion of authorized loan facilities, letters of guarantee and letters of credit, which represent an irrevocable commitment of the Group to make payment if a client is not able to fulfil its obligations to third parties represent another source of credit risk for the Group and bear the same credit risk as the balance sheet loan exposures.

The Parent company (the Bank) forms various sub-portfolios based on the type of contractors and credit risk carriers, as follows:

- Direct lending –portfolio of credit commitments with debtors-legal entities, other than bank financial institutions, and loans to individuals (loans to Bank's employees), as well as subjects from the public sector;
- Indirect lending or „on-lending" – portfolio of loans to financial (banking and non-banking) institutions, the purpose of which is to provide financing/to facilitate the access to financing for micro, small and medium-sized enterprises in the Republic of Bulgaria;
- Financing by the National Program for Energy Efficiency of Multi-Family Residential Buildings in compliance with CMD 18 of the CoM;
- Assignments of receivables from Road Infrastructure Agency of construction companies, implementing infrastructure projects assigned by Road Infrastructure Agency.

Beyond the credit portfolio, the Group's activity is exposed to credit risk also with respect to exposures related to other activities of the Group:

- portfolio of financial instruments, other than loans, formed in connection with the Group's free cash management, which comprises mainly government securities issued by the Republic of Bulgaria and other EU countries, classified as Financial Assets at Fair Value Through Other Comprehensive Income;
- to banks in connection with money market transactions, placed term deposits and available balances in Nostro accounts;
- receivables relating to the State budget.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The Group applies a system of limits relating to credit risk and concentration risk with respect to the different sub-portfolios, and currently monitors the credit risk of concentration of financial assets on the basis of industry criteria, and also by individual counterparty, and insurance companies ensuring coverage. Regarding the Group's direct credit portfolio, the allocation by economic sectors is monitored, as also that to clients and groups of related parties, by observing internal limitations (limits) for concentration of the corporate credit portfolio by economic sectors.

Maximum exposure to credit risk

Exposure to credit risk attributable to financial assets recognised in the consolidated statement of financial position is as follows:

	2020		2019	
Financial asset	**maximum**	**net**	**maximum**	**net**
Cash in hand and balances in current account with the Central Bank	496,279	496,279	250,643	250,643
Receivables from banks	480,688	478,700	341,990	339,716
Financial assets at amortized cost – Loans and advances to customers	2,087,855	1,829,250	1,811,403	1,650,088
Financial assets at amortized cost - Receivables from the State budget	57,975	57,824	167,258	166,821
Financial assets at amortized cost - Net investment in finance lease	40,382	39,611	10,327	9,735
Financial assets at amortized cost – Securities	12,204	12,056	12,236	12,144
Financial assets at fair value through other comprehensive income – Debt instruments	649,573	649,573	596,967	596,967
Financial assets at fair value through other comprehensive income – Equity instruments	57,709	57,709	3,578	3,578
Other financial assets	16,468	16,021	913	913
	3,899,133	**3,637,023**	**3,195,315**	**3,030,605**

Receivables from the State Budget comprise loans on the Energy Efficiency of Multi-Family Residential Buildings National Program (EEMFRBNP) amounting to BGN 57,975 thousand (2019: BGN 145,140 thousand) and cession receivables from Road Infrastructure Agency at the amount of BGN 0 thousand (2019: BGN 22,118).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Maximum exposure to credit risk (continued)

The exposure to credit risk arising out of off-balance sheet commitments is as follows:

	2020		**2019**	
	maximum	**net**	**maximum**	**net**
Loan guarantees under anti-COVID programs	479,462	359,154	-	-
Bank guarantees and letters of credit	434,088	411,926	498,745	482,596
Unutilised amount of authorized loans	264,318	264,238	294,991	294,991
Uncalled part of shares of Three Seas Initiative	25,399	25,399	-	-
Participation in the SIA investment program	1,006	1,006	1,168	1,168
	1,204,273	**1,061,776**	**794,904**	**778,755**
Maximum exposure to credit risk	**5,098,449**	**4,693,578**	**3,990,219**	**3,809,360**

In assessing the net exposure, accrued impairment and provisions, highly liquid collateral (government securities and cash), as well as the net present value of liquid collateral – real estate, have been taken into account.

Credit risk - concentration

The largest credit exposure of the Group to a group of related parties /other than bank institutions/ as of 31 December 2020 amounts to BGN 192,302 thousand at amortised cost (2019: BGN 147,715 thousand), which represents 18.20% of Group’s equity/eligible capital ratio according to Regulation 575/2013/EU (2019: 19.69%). The concentration of client’s portfolio (other than bank institutions) is presented in the following table:

	2020*	% of equity	**2019***	% of equity
The largest total exposure to a customer group	192,302	18.20%	147,715	19.69%
Total amount of the ten largest exposures	1,111,600	105.18%	1,106,985	147.59%
Total amount of the twenty largest exposures	1,625,663	153.82%	1,476,953	196.92%

There is no exposure to a customer or a group of related customers as at 31 December 2020, exceeding 25% of Group’s equity.

* The amount of the exposure net of impairment and highly liquid collateral.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Credit risk – concentration (continued)

The financial assets of the Group, classified by industry sectors, are presented in the table below. Loans to customers, as also finance leases, are stated at amortised cost before impairment:

Sectors	**2020**	**%**	**2019**	**%**
Government	848,268	21.76	814,383	25.52
Industry, total	538,644	13.80	500,328	15.68
Industry – energy generation and distribution	*115,818*	*2.97*	*86,001*	*2.69*
Industry – other industries	*149,348*	*3.81*	*133,880*	*4.19*
Industry – manufacture of food products	*46,823*	*1.20*	*46,853*	*1.47*
Industry – manufacture of tobacco products	*148,640*	*3.81*	*148,684*	*4.66*
Industry – manufacture of plant and equipment	*78,015*	*2.00*	*84,910*	*2.66*
Financial services	1,192,907	30.59	688,250	21.56
Trade	459,843	11.80	324,542	10.17
Transport	258,599	6.63	233,118	7.30
Tourist services	268,536	6.89	267,310	8.38
Construction	166,101	4.26	169,146	5.30
Real estate transactions	58,149	1.49	56,493	1.77
Agriculture	48,521	1.24	53,588	1.68
Collection and disposal of waste	-	-	246	0.01
Other industries	59,565	1.53	84,333	2.64
	3,899,133	**100**	**3,191,737**	**100**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets

The structure of the financial assets of the Group by risk classification groups is as follows:

As of 31 December 2020	**Standard (Stage 1)**	**Watch (Stage 2)**	**Non-performing (Stage 3)**	**Total**
Cash in hand and balances in current account with the Central Bank	496,279	-	-	496,279
Receivables from banks	480,688	-	-	480,688
Loans for commercial property and construction	431,104	215,197	110,623	756,924
Trade loans	766,683	207,013	105,126	1,078,822
Net investment in finance lease	39,697	73	612	40,382
Consumer loans	1,076	17	11	1,104
Residential and mortgage loans to individuals	1,150	-	-	1,150
Loans to other financial institutions	57,359	-	8,061	65,420
Other loans and receivables	26,679	117,528	40,228	184,435
Receivables from the State budget	57,975	-	-	57,975
Financial assets at amortized cost – Debt securities	12,204	-	-	12,204
Financial assets at fair value through other comprehensive income – Debt instruments	649,573	-	-	649,573
Other financial assets	16,021	-	447	16,468
Total financial assets	**3,036,488**	**539,828**	**265,108**	**3,841,424**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Quality of financial assets (continued)

As of 31 December 2019	Standard (Stage 1)	Watch (Stage 2)	Non-performing (Stage 3)	Total
Cash in hand and balances in current account with the Central Bank	250,643	-	-	250,643
Receivables from banks	341,813	177	-	341,990
Loans for commercial property and construction	570,586	118,202	74,711	763,499
Trade loans	512,552	81,112	120,212	713,876
Consumer loans	856	20	15	891
Residential and mortgage loans to individuals	1,174	-	-	1,174
Loans to other financial institutions	82,330	-	22,330	104,660
Other loans and receivables	127,415	66,303	33,585	227,303
Net investment in finance lease	9,598	146	583	10,327
Receivables from the State budget	167,258	-	-	167,258
Financial assets at fair value through other comprehensive income – Debt instruments	596,967	-	-	596,967
Financial assets at amortized cost – Debt securities	12,236	-	-	12,236
Other financial assets	913	-	-	913
Total financial assets	**2,674,341**	**265,960**	**251,436**	**3,191,737**

The table below presents the types of collaterals, received by the Group in relation to loans granted, at fair value determined by accredited independent valuers and confirmed by a Group's employee holding the necessary licence.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

	2020		2019	
Type of collateral	**Fair value**	%	**Fair value**	**%**
Mortgages	841,503	60.1	741,116	60.9
Pledges of plant, machinery, equipment, and inventories	316,974	22.7	276,320	22.7
Mortgages on ships	97,276	7.0	142,083	11.7
Credit risk insurance	64,280	4.6	15,614	1.3
Restricted deposits	57,968	4.1	15,719	1.3
Securities quoted on an exchange	20,536	1.5	20,536	1.7
Bank guarantees	804	0.1	4,892	0.4
Total collateral	**1,399,341**	**100**	**1,216,280**	**100**

Credit exposures could have more than one collateral, i.e. it could be included in more than one position. The amount of the collateral could exceed 100%, as more than one collateral could be provided to secure one loan.

At the request of the contractors, a Group company is able to re-negotiate the initial terms and conditions on the contract. Usually, these are the terms of loan utilization, loan amount, interest rates and/or repayment schedules from the point of view of the amount of a particular repayment instalment. Most of all, these are cases of changes in the initial parameters, purpose and scope, and respectively, the time schedule of projects. Upon renegotiation, the changes in preliminary terms and conditions are analysed in order to establish whether these changes represent a concession (discount) in favour of the debtor and the exposure should be accepted as restructured and therefore, to be reclassified to Stage 2 or Stage 3 pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures Impairment of BDB, which is applied by the Group entities by monitoring the exposures for indicators of impairment, which may lead to impairment in a future period. These indicators are as follows:

„Article 11. Indicators of impairment:

(1) Significant increase in credit risk, which results in recognition of a lifetime expected credit loss for the instrument (i.e. transition from a 12-month expected credit loss) and respectively, classification in Stage 2 (Watch) would be a consequence of the following circumstances:

1. *significant changes in internal credit risk indicators as a result of a change in credit risk relative to the beginning of the life of the asset;*
2. *other changes in interest rates or the conditions of an existing financial instrument that would be materially different if the instrument was newly granted or issued at the date of the financial statements (for example, more stringent terms and conditions, increased collateral or warranty requirements) due to changes in the credit risk of the financial instrument compared to that of its initial recognition;*

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

3. significant changes in the external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same life expectancy. Changes in credit risk margins include, but are not limited to:

a) credit spread;

b) the credit default swap price for the borrower;

c) duration of the period or the extent to which the fair value of a financial asset is lower than its amortized cost; and

d) changes in the price of borrower's debt and equity instruments;

e) any other market information about the borrower.

4. actual or expected significant change in the financial instrument's external credit rating (or of the debtor);

5. actual or expected downgrade of the borrower's external credit rating or a downgrade in the scoring rating used to measure credit risk;

6. existing or expected adverse changes in business, financial or economic conditions, for which it is expected to result in a significant change in the borrower's ability to perform its obligations.

7. actual or expected significant change in the borrower's operating results, such as actual or expected decreasing revenue or margins, increase in operating risks, working capital shortage, asset quality deterioration, increased leverage, low liquidity, management problems or changes within the scope of business or organisational structure that results in a significant change in the borrower's ability to perform its obligations on the debt;

8. significant increases in credit risk for other financial instruments of the same borrower;

9. actual or expected significant adverse change in the borrower's regulatory, economic or technological environment, which has resulted in a significant change in the borrower's ability to perform its obligations;

10. significant changes in the value of the debt collateral or in the quality of guarantees and additional credit protection provided by a third party that are expected to reduce the economic incentive of the borrower to make scheduled contractual payments or to otherwise impact on the probability of default on the loan;

11. significant change in the quality of a guarantee provided by a shareholder (or by the owner of an entity) if the shareholders (owners) have an incentive and financial opportunity to prevent default through an increase in capital and / or cash;

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

12. significant changes, such as a reduction in financial support from a parent company or other subsidiary, or actual or expected significant change in the quality of credit protection that is expected to reduce the economic incentive for the borrower to make contractual payments.

13. expected changes in the loan documentation, including an expected breach of the contract, which may lead to the debtor being released from the obligation to comply with contractual commitments or amendments to the contract, interest rates, interest rate increases, requirements for additional collateral or guarantees, or other changes in the contractual framework of the instrument;

14. significant changes in the expected results and behaviour of the borrower, including changes in the creditworthiness of the borrowers within the group;

15. specific changes in the Bank's approach for managing the loan in relation to the financial instrument; for example on the basis of newly emerging indicators of a change in financial instrument's credit risk, it is expected that the Bank's credit risk management practice will become more active or focused on instrument management, including more prudent or stringent monitoring, or active intervention in the relationships with the borrower;

16. information on arrears, including cases of amounts past due by more than 30 days (if there is evidence that a significant number of defaulting debtors for more than 30 days have not reached the stage of significant deterioration, this threshold may be increased; however, extensive supporting data will be required in accordance with the provision of paragraph B5.5.19 of IFRS 9);

17. initiation of court proceedings; claiming of bank guarantees or other circumstances that are expected to result in significant costs for the borrower;

18. considerable delay in the provision by the borrower of financial and other necessary information;

19. undertaking of significant obligations of the borrower towards third parties, incl. off balance sheet, which would result in difficulties or inability to properly service the Bank's credit exposure.

(2) Events related to a classification where a financial instrument is classified in Stage 3, i.e. it is considered to be an asset with deteriorated credit quality and which, in most cases, correspond to the definition of default on the instrument, include:

1. significant financial difficulties of the debtor;

2. past due or unpaid liabilities to the Bank for more than 90 days;

3. provision of a concession to the debtor in view of its financial difficulties, which would otherwise not have been provided by the Bank;

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

a) if, as a result of the re-negotiation and provision of a concession to the debtor resulting in changes of cash flows the asset is derecognised and a new one is created (initially recognised), the Bank estimates only the 12-month expected loss. Further analysis of the expected credit loss is carried out if an increased credit risk exists.

b) if, as a result of the re-negotiation and provision of a concession to the debtor resulting in changes of cash flows the asset is derecognised and a new one is created (initially recognised), but as a consequence the latter is reported as an impaired asset acquired / occurred, the Bank recognises the cumulative changes in the expected credit losses over its entire life.

c) if, a result of the re-negotiation and provision of a concession to the debtor, the financial asset is not derecognised, the Bank analyses whether there is a significant increase in credit risk, comparing:

(aa) the risk of default assessed at the reporting date (based on changed contractual terms); and

(bb) the risk of default assessed at initial recognition (on the basis of the original unchanged contractual terms);

in order to establish whether it should recognise lifetime expected credit losses or 12-month expected credit losses;

4. high probability of insolvency of the debtor or other financial reorganization of the debtor;

5. other evidence of deterioration in the debtor's creditworthiness."

The analysis should also determine whether the modification is material to an extent that justifies the derecognition of the asset or recognition of a new one.
In 2020 the Bank carried out an analysis of the effect of the modifications on the exposures in its portfolio, including those made within a private moratorium in relation to the Covid-19 pandemic, with the objective of determining whether some of them may indicate a necessity for derecognition and recognition of a new asset. As a result of the analysis, it was estimated that the effect of the modifications is insignificant.

The analysis of the changes in the values of the main group of financial assets and their impairment are presented in sub-section ECL Reporting in this section.

Regarding the loans extended under the National Programme for Energy Efficiency of Multi-Family Buildings (NPEEMFB), it should be noted that according to the programme’s parameters the amount of the loan approved is subject to regular updating in order to ensure expenditure control. The signing of annexes to the loan contracts, by means of which the financial parameters are updated, is a result of those controls.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

The table below presents data on the portfolio amount of the Group's financial assets by type of instrument:

	Financial assets measured at amortized cost							FA measured at fair value through OCI
	Non-financial institutions	**State budget**	**Financial institutions**	**Individuals**	**Cash in hand and balances in current account with the Central Bank**	**Securities**	**Net investment in finance lease**	**Debt instruments**
At 31 December 2020								
Impaired on an individual basis								
-standard (Stage 1)	791,652	-	89,314	2,226	-	12,204	39,697	646,787
-watch (Stage 2)	484,706	-	-	17	-	-	73	-
-non-performing (Stage 3)	199,690	-	-	11	-	-	612	-
Gross amount	**1,476,048**	**-**	**89,314**	**2,254**	**-**	**12,204**	**40,382**	**646,787**
Incl. renegotiated	1,110,772	-	61,578	200	-	-	-	-
Past due but not impaired								
-standard (Stage 1)	28,716	-	-	-	-	-	-	-
-watch (Stage 2)	-	-	-	-	-	-	-	-
-non-performing (Stage 3)	15,444	-	-	-	-	-	-	-
Gross amount	**44,160**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. **FINANCIAL RISK MANAGEMENT (CONTINUED)**

4.1. Credit risk (continued)

Quality of financial assets (continued)

	Financial assets measured at amortized cost							FA measured at fair value through OCI
	Non-financial institutions	**State budget**	**Financial institutions**	**Individuals**	**Cash in hand and balances in current account with the Central Bank**	**Securities**	**Net investment in finance lease**	**Debt instruments**
At 31 December 2020								
Incl. renegotiated	***44,160***	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Within 30 days	28,716	-	-	-	-	-	-	-
From 30- 90 days	2,642	-	-	-	-	-	-	-
Over 90 days	12,802	-	-	-	-	-	-	-
Impaired on a portfolio basis								
- standard – Stage 1	206,862	57,975	-	-	-	-	-	-
-watch (Stage 2)	55,032							
-non-performing (Stage 3)	42,045							
Gross amount	**303,939**	**57,975**	**-**	**-**	**-**	**-**	**-**	**-**
Incl. renegotiated	***245,270***	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Not past due and not impaired								
Stage 1	254,595	-	391,374	-	496,279	-	-	2,786
Stage 2	-	-	-	-	-	-	-	-
Stage 3	6,859	-	-	-	-	-	-	-
Gross amount	**261,454**	**-**	**391,374**	**-**	**496,279**	**-**	**-**	**2,786**
Incl. renegotiated	226,764	-	-	-	-	-	-	-
Gross amount	**2,085,601**	**57,975**	**480,688**	**2,254**	**496,279**	**12,204**	**40,382**	**649,573**
Incl. renegotiated	1,626,966	-	61,578	200	-	-	-	-

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

	Financial assets measured at amortized cost							FA measured at fair value through OCI
	Non-financial institutions	**State budget**	**Financial institutions**	**Individuals**	**Cash in hand and balances in current account with the Central Bank**	**Securities**	**Net investment in finance lease**	**Debt instruments**
At 31 December 2019								
Impaired on an individual basis								
-standard (Stage 1)	1,287,196	22,118	101,007	2,030	-	12,236	9,052	596,967
-watch (Stage 2)	265,617	-	177	20	-	-	146	-
-non-performing (Stage 3)	216,934	-	-	15	-	-	583	-
Gross amount	**1,769,747**	**22,118**	**101,184**	**2,065**	**-**	**12,236**	**9,781**	**596,967**
Incl. renegotiated	1,136,890	-	50,613	255	-	-	-	-
Past due but not impaired								
-standard (Stage 1)	6,600	-	-	-	-	-	546	-
-watch (Stage 2)	-	-	-	-	-	-	-	-
-non-performing (Stage 3)	20,485	-	-	-	-	-	-	-
Gross amount	**27,085**	**-**	**-**	**-**	**-**	**-**	**546**	**-**
Incl. renegotiated	***20,163***	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Within 30 days	6,123	-	-	-	-	-	-	-
From 30-90 days	1,550	-	-	-	-	-	-	-
Over 90 days	12,490	-	-	-	-	-	-	-

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. **FINANCIAL RISK MANAGEMENT (CONTINUED)**

4.1. Credit risk (continued)

Quality of financial assets (continued)

	Financial assets measured at amortized cost							FA measured at fair value through OCI
	Non-financial institutions	**State budget**	**Financial institutions**	**Individuals**	**Cash in hand and balances in current account with the Central Bank**	**Securities**	**Net investment in finance lease**	**Debt instruments**
Impaired on a portfolio basis								
-standard – Stage 1	-	145,140	-	-	-	-	-	-
Gross amount	**-**	**145,140**	**-**	**-**	**-**	**-**	**-**	**-**
Incl. renegotiated	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Not past due and not impaired								
Stage 1	-	-	240,806	-	250,643	-	-	-
Stage 2	-	-	-	-	-	-	-	-
Stage 3	13,419	-	-	-	-	-	-	-
Gross amount	**13,419**	**-**	**240,806**	**-**	**250,643**	**-**	**-**	**-**
Incl. renegotiated	61	-	-	-	-	-	-	-
Gross amount	**1,810,251**	**167,258**	**341,990**	**2,065**	**250,643**	**12,236**	**10,327**	**596,967**
Incl. renegotiated	1,157,114	-	50,613	255	-	-	-	-

The tables above do not present other financial assets with a carrying amount of BGN 16,021 thousand (2019: BGN 913 thousand) comprising prepaid expenses and advances to suppliers (assets that are subsequently leased). As of 31.12.2020, the item also includes the payment for the shares of Three Seas Fund subscribed by BDB: BDB has transferred the amount of EUR 7,014 thousand (BGN 13,717 thousand) to cover part of its participation in the investments of Three Seas Fund, which at this stage, according to the agreement of the Fund's shareholders, was required. As the certificate for purchased shares was received after the date of the financial statements, as of 31.12.2020 the amount is reflected in “Prepaid expenses and advances” (see Note 27), and the commitment for capital contribution, which has not yet been requested, is presented in Note 37 Contingent liabilities and commitments.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

The Group classifies not past due and not impaired exposures to the above classes depending on their internal credit rating, as follows:

- high grade – credit rating from 1 to 3 – Stage 1
- standard grade – credit rating from 4 to 5 – Stage 1
- low grade – credit rating from 6 to 7 – Stage 1 (rating 6), not past due or past due up to 30 days, or Stage 2 (rating 7) and past due 30-90 days
- non-performing – Stage 3 (rating 8, 9 and 10) and past due over 90 days

Watch financial assets at amortized cost and finance lease receivables (Stage 2), presented at amortised cost before impairment, are as follows:

	2020	**2019**
Loans for commercial property and construction	215,197	118,202
Trade loans	207,013	81,112
Finance lease receivables	73	146
Consumer loans	17	20
Loans to banks	-	177
Other loans and receivables	117,528	66,303
	539,828	**265,960**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Quality of financial assets (continued)

When the initial terms of the agreement have been modified by the Parent-company by granting a concession (discounts) to a debtor experiencing difficulties in performing its financial obligations a loan is classified as "restructured" (Stage 2 or 3, in accordance with Policy and rules for determining expected credit losses and impairment of exposure of BDB).

The restructured loans and receivables, presented at amortised cost, are as follows:

	2020	2019
Loans for commercial property and construction	**75,746**	**45,919**
incl. Performing – Stage 1	*615*	*708*
Watch – Stage 2	*8,659*	*4,437*
Non-performing – Stage 3	*66,472*	*40,774*
Trade loans	**73,506**	**-**
incl. Performing – Stage 1	-	-
Watch – Stage 2	*58,865*	-
Non-performing – Stage 3	*14,641*	-
Other loans	**78,934**	**36,361**
incl. Performing – Stage 1	*2,206*	-
Watch – Stage 2	*76,159*	*21,946*
Non-performing – Stage 3	*569*	*14,415*
	228,186	**82,280**

Contingent commitments

Bank guarantees, letters of credit and unutilized loan commitments

The Bank assesses the credit quality of provided contingent commitments by applying a methodology, which estimates whether events indicating with a high probability that outflow of Bank's resources might take place have occurred. These costs (losses) are determined on the basis of the Policy and Methodology for assessment of expected credit losses, and a Calculation Procedure of BDB based on a Conversion Factor (CCF) that is applied in the case of off-balance sheet exposures that are likely to turn into balance sheet exposures (payments on guarantees, utilisation of part of the allowed amount of the loan, etc.).

At the date of the statement of financial position financial statements, the Group identified commitments amounting to BGN 434,088 thousand (2019: BGN 498,745 thousand), which are provided in the amount of BGN 7,060 thousand (2019: BGN 8,098 thousand) (Note 32).

Credit guarantees anti-COVID-19

In 2020 the Bank, on the basis of decisions of the Council of Ministers of the Republic of Bulgaria, became a guarantor to a group of Bulgarian commercial banks for loans to individuals and legal entities in order to overcome the consequences of the COVID-19 pandemic (see Note 37).

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Contingent commitments (continued)

Contracts for financial guarantees
These contingent liabilities are carriers of off-balance sheet credit risk, as only fees are recognized in the financial statements until the fulfilment or expiration of the commitments. Many of the contingent liabilities will expire without being partially or fully advanced. The collateral with the partner banks for issuing the usual guarantees is over 100% and represents mainly mortgaged real estate and insurance policies issued in favor of the partner bank.

Expected credit losses (ECL) reporting

For instruments measured at amortised cost, ECLs reduce the carrying amount in the statement of financial position.

For debt instruments measured at fair value through other comprehensive income, ECLs are part of the negative change in the fair value due to an increased credit risk. They continue to be presented at the fair value in the statement of financial position, and the accumulated adjustment for losses is recognized in the statement of comprehensive income. Upon subsequent derecognition of the instrument, the accumulated adjustment is recognized in the profit or loss for the period.

Contracts for financial guarantees are contingent liabilities and are bearers of off-balance sheet credit risk, as only fees are recognized in the financial statements until the fulfilment or expiration of the commitments. Many of the contingent liabilities will expire without being partially or fully advanced. The collateral with the partner banks for issuing the usual guarantees is over 100% and represents mainly mortgaged real estate and insurance policies issued in favour of the partner bank. For the guarantees under the anti-COVID programs, the collaterals are in accordance with the program approved by the Council of Ministers. In case of activation of a component of a guarantee issued by a company of the Group, the payment made by it is not assessed as a final loss, as the partner bank has an obligation to take all necessary actions for realization of the received collaterals on the problem loan and repay the respective amount to the company.

Risk parameters affecting ECL

Probability of default (PD)

PD is the probability of a counterparty not complying with contract clauses related to debt repayment. For each individual exposure or a portfolio of collectively assessed exposures, the Group maintains historical information on the migration of exposures between different stages.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Risk parameters affecting ECL (continued)

Probability of default (PD) (continued)

The value of 12M PD is determined on the basis of observed deterioration rates and is calculated as a moving average over a period of at least 2 years. For exposures that are individually measured, the value of the 12M PD is determined depending on the assigned credit rating according to an internal model. Data on the changes in the borrowers' rating over a one-year horizon is aggregated into transaction matrices, and a 12M PD is calculated for each rating scale depending on the number of default cases found. The Group adjusts the values of 12M PD to reflect the current or expected economic conditions that may differ from those during the historical periods analysed.

Exposure at default (EAD)

EAD is potential exposure at the time of default. The level of exposure at default is determined individually for each loan depending on the type of loan, taking into account both the amount of utilized amounts and the agreed undrawn amounts according to the expectation of future drawdowns.

Loss Given Default (LGD)

LGD is the ratio of the exposure loss due to default to the amount of exposure at default. The Group calculates the potential loss that would have arisen if an exposure goes into default and the only source for collecting the receivable is the realization of the collateral. The loss is measured as a percentage of Exposure at Default (EAD).

The Group has determined relative thresholds that are used also for the exposures for which the absolute thresholds are applied and for those, for which no such thresholds have been determined. They are based on matrixes covering the overall credit cycle (through-the-cycle, TTC) and the change in the probability of default on the respective exposures from the external aggregated data of Moody's (the Group has developed preliminary a methodology for equalizing the internal credit ratings to those assigned by the rating agency).

Expected credit losses on issued credit guarantees anti-COVID

For these programmes the BDB adopted a special methodology for provisioning in view of the specifics of the programmes, profile of the customers and structure of commitments related to the products for cash inflows and outflows as follows:

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses on issued credit guarantees anti-COVID (continued)

Programme for companies

The main parameters of the programme and the guaranteed loans are:

- The obligation to pay under the guarantees is practically unconditional (for loans admitted in the program).
- The guarantees are 100% of the principal on the loan. A maximum ceiling of payments was established – initially of 30%, and by decision of the Council of Ministers the ceiling was raised to 50%. As of 31 December 2020, there are still no annexes signed under the new terms with the partner banks under the programme.
- The selection of borrowers is based on criteria related to the effects of the pandemic and not to the usual criteria for providing funding to legal entities. SMEs were included and at the end of 2020 intermediate enterprises were also included by the amendments made.
- Banks have the option to include loans without the normally necessary collateral (20% coverage of collateral exposures is required). It is also possible to include a certain percentage of exposures already formed, and the self-participation of banks is set at 20%. The terms prejudge a significantly higher risk than under normal business guarantee programmes.
- As of 31 December 2020, the BDB has assumed a commitment to commercial banks for a guarantee of BGN 235.4 million and the commercial banks granted guaranteed loans of BGN 140 million. The issuance of the guarantees under the programme is expected to be completed in 2021 (deadline 31.12.2021).
- The total amount of the programme of BGN 500 million will be negotiated with commercial banks on additional guarantee lines in 2021

Under the set parameters, the estimates for the expected developments are:

- Payments by the BDB amount to 30% of the guarantee commitment and the remaining 70% will be paid by the borrowers;
- The realization of the main part of the payments under the programme will continue up to 2 years after the original maturity of the loans (taking into account the time between the beginning of default and payment by the BDB and the extension of the repayment period of persons with partial default);
- The reimbursement of the amounts paid under the guarantees shall amount to 35% of the amounts paid. This estimate shall take into account the recovery costs;
- A discount rate of 1% corresponding to the applicable interest rate on the liabilities of the BDB was used.

The impairment model and the resulting expected losses are not significantly affected by the programme utilization period and, accordingly, repayment of liabilities, given the very low interest rates expected in the medium term and, accordingly, very low discount factors for future cash flows.

The sensitivity of the net present value of payments to the effective percentage of payments by the BDB is 3.33% for each 1% change from the base value. Its sensitivity to the recovery rate of amounts already paid is 1.51% for every 1% change.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses on issued credit guarantees anti-COVID (continued)

Programme for individuals

The main parameters of the program and the guaranteed loans are:

- Payments under guarantees are virtually unconditional (for loans admitted to the programme);
- The guarantees are for 100% of the principal amount of the loan;
- The selection of borrowers is based on the criterion “affected by the pandemic” and not on the usual criteria for providing funding to individuals. These are persons on unpaid leave or self-employed persons with reduced income. Borrowers' incomes are stressed and significantly lower than usual;
- BDB compensates the participating commercial banks with an annual payment of 1.50% on the amount of the guarantee commitment;
- As of 31 December 2020, BDB has assumed a commitment to commercial banks for guarantees in the amount of BGN 177.2 million, and the commercial banks granted guaranteed loans of BGN 105 million. By Decision of the Council of Ministers 506/15.07.2021 an extension was approved of the deadline for applying for credit by individuals "until 31.08.2021 or until the guarantee limits for financing under the programme by partner banks are exhausted, whichever occurs earlier");
- The loans have a grace period of up to two years and a term of up to 5 years.

Under the set parameters, the estimates for the expected developments are:

- Payments by the BDB will amount to 40% of the guarantee commitment and the remaining 60% will be paid by the borrowers;
- The realization of the main part of the payments under the program will continue up to 2 years after the original maturity of the loans (taking into account the time between the beginning of default and payment by the BDB and the extension of the repayment period of persons with partial default);
- Refunds on guarantees should amount to 25% of the amounts paid. This estimate shall take into account the recovery costs;
- The payment of 1.5% to commercial banks is an irrevocable commitment of the BDB, which is included in the calculation;
- A discount rate of 1% corresponding to the applicable interest rate on the liabilities of the BDB was used.

The impairment model and the resulting expected losses are not significantly affected by the programme utilization period and, accordingly, repayment of liabilities, given the very low interest rates expected in the medium term and, accordingly, very low discount factors for future cash flows.

The sensitivity of the net present value of payments to the effective percentage of payments by the BDB is 1.96% for each 1% change from the base value. Its sensitivity to the recovery rate of amounts already paid is 1.05% for every 1% change.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Expected credit losses on issued credit guarantees anti-COVID (continued)

At the date of the financial statements, the Bank has guaranteed exposures under the two programmes totalling BGN 479,462 thousand, recognizing provisions at the amount of BGN 120,308 thousand.

Expected credit losses on portfolio guarantees issued

These costs/losses are determined on the basis of the present value of the future net cash flows, representing the difference between the payment obligation and the possible inflows of subsequent recourse to third parties.

In order to properly assess the portfolios under guarantee schemes in terms of own risk, namely “Guarantee scheme 2009-2011”, “Guarantee scheme 2015-2017”, “Guarantee scheme 2017-2018” and COSME Guarantee scheme, the NGF applies a Policy on the Classification and Evaluation of Instruments covered by IFRS 9, a Credit Portfolios Rating Procedure and the Methodology for determining the expected credit losses, as also a Procedure for their calculation. A calculation of expected losses on financial instruments in the NGF portfolio is carried out by applying a calculation model for expected losses.

Movements in the main groups of assets subject to impairment

The tables below show the movements of the main groups of assets subject to impairment, between the different stages for the period 01.01-31.12.2020 and 01.01-31.12.2019:

All assets measured at amortised cost – non-financial entities, including with state participation, individuals and non-banking financial institutions as well as finance lease receivables are included in the table presented on the next page.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Movements in the main groups of assets subject to impairment (continued)

Assets measured at amortised cost (except for Government and Receivables from Banks)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as of 01.01.2019	**671,307**	**275,883**	**270,313**	**1,217,503**
Transfers:				
Transfer from Stage 1 to Stage 2	(4,787)	4,787	-	-
Transfer from Stage 1 to Stage 3	(3,213)	-	3,213	-
Transfer from Stage 2 to Stage 3	-	(1,691)	1,691	-
Transfer from Stage 2 to Stage 1	160	(160)	-	-
Newly occurred and newly acquired exposures	634,760	62,940	12,260	**709,960**
Paid or transferred	(106,427)	(77,814)	(43,132)	**(227,373)**
Increased	113,332	1,837	7,092	**122,261**
Balance as of 31.12.2019	**1,305,132**	**265,782**	**251,437**	**1,822,351**
Transfers:				
Transfer from Stage 1 to Stage 2	(291,077)	291,077	-	-
Transfer from Stage 1 to Stage 3	(9,967)	-	9,967	-
Transfer from Stage 2 to Stage 3	-	(27,473)	27,473	-
Transfer from Stage 2 to Stage 1	1,430	(1,430)	-	-
Newly occurred and newly acquired exposures	363,891	27,522	12,127	**403,540**
Paid or transferred	(158,433)	(15,872)	(43,458)	**(217,763)**
Increased	112,772	222	7,115	**120,109**
Balance as of 31.12.2020	**1,323,748**	**539,828**	**264,661**	**2,128,237**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Movements in the main groups of assets subject to impairment (continued)

Assets measured at amortised cost - Government	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as of 01.01.2019	**472,803**	**-**	**-**	**472,803**
Newly occurred and newly acquired exposures	8,619	-	-	8,619
Paid or transferred	(417,350)	-	-	(417,350)
Increased	103,186	-	-	103,186
Balance as of 31.12.2019	**167,258**	**-**	**-**	**167,258**
Newly occurred and newly acquired exposures	3	-	-	**3**
Paid or transferred	(139,135)	-	-	**(139,135)**
Increased	29,849	-	-	**29,849**
Balance as of 31.12.2020	**57,975**	**-**	**-**	**57,975**

The Group presents under the heading Government assets measured at amortised cost relating mainly to the National Programme for Energy Efficiency of Multi-Family Residential Buildings (NPEEMFRB).

Assets measured at amortised cost - Banks and financial institutions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as of 01.01.2019	**431,119**	**-**	**-**	**431,119**
Newly occurred and newly acquired exposures	191,222	177	-	**191,399**
Paid or transferred	(305,721)	(177)	-	**(305,721)**
Increased	24,902	-	-	**24,725**
Balance as of 31.12.2019	**341,522**	**-**	**-**	**341,522**
Newly occurred and newly acquired exposures	355,801	-	-	**355,801**
Paid or transferred	(224,035)	-	-	**(224,035)**
Increased	7,396	-	-	**7,396**
Balance as of 31.12.2020	**480,688**	**-**	**-**	**480,688**

Loans to banks and financial institutions include both transactions on an interbank market and deposits of different maturity.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Movements in the main groups of assets subject to impairment (continued)

Assets measured at fair value through other comprehensive income – debt instruments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as of 01.01.2019	**650,375**	**-**	**-**	**650,375**
Newly occurred and newly acquired exposures	133,159	-	-	**133,159**
Paid or transferred	(195,024)	-	-	**(195,024)**
Increased	8,457	-	-	**8,457**
Balance as of 31.12.2019	**596,967**	**-**	**-**	**596,967**
Newly occurred and newly acquired exposures	156,753	-	-	**156,753**
Paid or transferred	(231,034)	-	-	**(231,034)**
Increased	126,887	-	-	**126,887**
Balance as of 31.12.2020	**649,573**	**-**	**-**	**649,573**

Portfolio of securities consists mainly of bonds of the Republic of Bulgaria, other European sovereign issuers and bonds of large corporate clients.

The amount of the expected credit loss is a function of the probability of default of the instrument, the realized loss and the amount of balance sheet and off-balance sheet exposure. The probability of default (PD) and the realized LGD are the parameters employed in determining the provisioning rate and those parameters are determined on the basis of an individual review of the early warning signs that are homogeneous in terms of their credit characteristics and their relation to international and domestic macroeconomic variables that could affect them.

Movement in the impairment in 2020 and 2019 is presented on the following page.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Movement in the impairment of main groups of assets subject to impairment in 2020 and 2019.

Assets measured at amortised cost (except for Government)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance of impairment as of 01.01.2019	**4,787**	**2,156**	**152,984**	**159,927**
Transfers:				
Transfer from Stage 1 to Stage 2	(45)	45	-	-
Transfer from Stage 1 to Stage 3	(1,265)	-	1,265	-
Transfer from Stage 2 to Stage 3	-	(25)	25	-
Newly occurred and newly acquired exposures	23,426	2,170	11,188	**36,784**
Paid or transferred	(822)	92	(59,475)	**(60,205)**
Increased	541	323	24,537	**25,401**
Balance of impairment as of 31.12.2019	**26,622**	**4,761**	**130,524**	**161,907**
Transfers:				
Transfer from Stage 1 to Stage 2	(58,109)	58,109	-	-
Transfer from Stage 1 to Stage 3	(4,116)	-	4,116	-
Transfer from Stage 2 to Stage 3	47	(829)	782	-
Transfers from Stage 2 to Stage 1	4	(4)	-	-
Newly occurred and newly acquired exposures	19,104	3,290	1,043	**23,437**
Paid or transferred	(3,529)	(454)	(37,177)	**(41,159)**
Increased	92,432	7,911	14,849	**115,192**
Balance of impairment as of 31.12.2020	**72,455**	**72,784**	**114,137**	**259,376**

Impairment of financial assets at amortized cost – net exposure to financial lease is included in the movement in the impairment above.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Movement in the impairment of main groups of assets subject to impairment in 2020 and 2019 (continued)

Assets measured at amortised cost - Government	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance of impairment as of 01.01.2019	**804**	**-**	**-**	**804**
Net movement of impairment on Energy Efficiency of Multi-Family Buildings National Programme	(557)	-	-	**(557)**
Cession receivables from Road Infrastructure Agency	190	-	-	**190**
Balance of impairment as of 31.12.2019	**436**	**-**	**-**	**436**
Net movement of impairment on Energy Efficiency of Multi-Family Buildings National Programme	(285)	-	-	**(285)**
Cession receivables from Road Infrastructure Agency	-	-	-	**-**
Balance of impairment as of 31.12.2020	**151**	**-**	**-**	**151**

Assets measured at amortised cost - Banks and financial institutions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance of impairment as of 01.01.2019	**1,116**	**-**	**-**	**1,116**
Increased	1,158	-	-	**1,158**
Balance of impairment as of 31.12.2019	**2,274**	**-**	**-**	**2,274**
Paid or transferred	(286)	-	-	**(286)**
Balance of impairment as of 31.12.2020	**1,988**	**-**	**-**	**1,988**

Assets measured at fair value through other comprehensive income	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance of impairment as of 01.01.2019	**2,446**	**-**	**-**	**2,446**
New exposures	195	-	-	195
Paid or transferred	(969)	-	-	(969)
Other movements	8	-	-	8
Balance of impairment as of 31.12.2019	**1,680**	**-**	**-**	**1,680**
Newly occurred and newly acquired exposures	386	-	-	**386**
Paid or transferred	(310)	-	-	**(310)**
Increased	862	-	-	**862**
Balance of impairment as of 31.12.2020	**2,618**	**-**	**-**	**2,618**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4.1. Credit risk (continued)

Movement in the impairment of main groups of assets subject to impairment in 2020 and 2019 (continued)

Amount of the collateral as of 31.12.2020 and 31.12.2019

The amount of the collateral on secured assets is presented in the following table:

Type of collateral	Carrying amount of the loan	Amount of the collateral
Mortgages	659,505	841,503
Pledge of plant, equipment and inventories	228,314	316,974
Restricted deposits	531,076	57,968
Mortgage on a ship	72,494	97,276
Credit risk insurance	63,912	64,280
Securities quoted on an organized market	14,279	20,536
Bank guarantees	6,096	804
Other collateral	319,987	3,102,524
Unsecured	26,777	-
Total as of 31.12.2020	**1,922,440**	**4,501,865**

Type of collateral	Carrying amount of the loan	Amount of the collateral
Mortgages	786,752	728,736
Pledge of plant, equipment and inventories	567,967	278,363
Restricted deposits	495,290	15,719
Mortgage on a ship	87,583	142,083
Insurance policies	36,253	15,614
Bank guarantees	14,454	20,536
Securities	9,814	4,892
Total as of 31.12.2019	**1,998,113**	**1,205,943**

Country (sovereign) risk

The Group has formed a portfolio of securities classified as financial assets at fair value through other comprehensive income, comprising mainly government securities issued by the Republic of Bulgaria and other EU countries and the USA. The Group’s exposure to sovereign is BGN 626,924 thousand as of 31.12.2020 and BGN 567,819 thousand as of 31.12.2019.

Standard & Poor's credit rating for the Republic of Bulgaria stands at BBB with stable outlook (28.11.2020), BBB with positive from Fitch Ratings (1.03.2021) and Baa1 with stable outlook from Moody’s (10.10.2020). The securities held issued by governments of other countries have a rating which is not lower than BBB- according to Fitch Ratings/Standard&Poor’s, or equivalent Baa3 according to Moody’s.

According to Fitch Ratings, BBB credit rating means that insolvency expectations are low, and the capacity to service financial liabilities is adequate, but a deterioration in economic conditions or business environment is likely to lessen this capacity. The definitions of Moody's and Standard Poor’s of the rating assigned to the sovereign are similar.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk

Market risk is the risk of adverse movements in interest rates, exchange rates, liquidity position, and other factors affecting the price of securities and other financial assets. These movements affect the Group's profitability and financial position.

Interest rate risk

Interest rate risk is the probability for potential change of the net interest income or the net interest margin and the market value of the equity due to changes in market interest rates.

Interest rate risk is considered in view of the overall activity of the Group. Analyses of financial assets and liabilities grouped in time intervals depending on their sensitivity to changes in the interest rates are conducted on regular basis
The approach for measuring interest rate risk with respect to the overall activity comprises primarily:

- Analysis of the interest rate sensitivity of income – measuring the interest rate sensitivity of the Group's net income;
- Analysis of the interest rate sensitivity of economic capital (Duration GAP Analysis) – measuring the interest rate sensitivity of the Group's economic value;
- Determination, application and reporting of limits for interest rate risk reflecting the volatility of the respective interest rate curve and the Group's risk appetite;
- Stress tests for interest rate risk – presenting the potential movements in the annual interest income after applying a stress scenario involving changes in the interest rate curves by types of currencies.

Cash flow interest rate analysis is conducted by allocating the cash flows from assets and liabilities included in the interest rate imbalance analysis and forming the respective maturity gaps. In case of Group's statement of financial position items classified as such and measured at fair value, the fair value risk analysis is limited to placing the relevant item with the applicable maturity structure within the interest rate imbalance analysis.

The Group maintains designated interest-free assets and liabilities in relation to the execution of payment operations.

In addition to interest rate sensitivity analyses, the main drivers of the movement in the net interest spread of the Group are identified for the purposes of interest rate risk management. This assists decision making on the interest rate policies of the Group, in particular, for the development of specific products and providing sources of financing having matching characteristics.

The Assets and Liabilities Committee (ALCO) currently monitors interest rate risk to which the Group is exposed and develops measures for its management and maintenance within the Group's permitted levels and limits.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

The table below summarises the interest exposure and interest risk of the Group. It includes information on the Group's assets and liabilities at their carrying amount in accordance with interest-related clauses, set in the contracts, their maturity structure and sensitivity to movements in interest rates.

The Group's assets and liabilities with floating interest rate are based mainly on 3-month and 6-month EURIBOR.

31 December 2020	*With floating interest rate %*	*With fixed interest rate %*	*Interest-free*	*Total*
Financial assets				
Cash in hand and balances in current account with the Central Bank	495,678	-	601	496,279
Receivables from banks	23,156	442,993	12,551	478,700
Financial assets at amortised cost - Loans and advances to customers	1,781,619	46,128	1,503	1,829,250
Financial assets at amortised cost – Receivables from the State budget	57,824	-	-	57,824
Financial assets at amortised cost – Securities	-	12,056	-	12,056
Financial assets at amortised cost – Net investment in finance leases	39,412	-	199	39,611
Financial assets at fair value through other comprehensive income – Debt instruments	-	649,573	-	649,573
Other financial assets	-	-	16,021	16,021
	2,397,689	**1,150,750**	**30,875**	**3,579,314**

31 December 2020	*With floating interest rate %*	*With fixed interest rate %*	*Interest-free*	**Total**
Financial liabilities				
Deposits from credit institutions	8,162	14	-	8,176
Deposits from customers other than credit institutions	658,563	310,276	11,652	980,491
Borrowings from international institutions	1,148,917	89,987	-	1,238,904
Lease liabilities	169	-	110	279
Other borrowings and liabilities	11,237	5,695	70,373	87,305
	1,827,048	**405,972**	**82,135**	**2,315,155**
Total interest rate exposure	**570,641**	**744,778**	**(51,260)**	**1,264,159**
Contingencies and commitments	**256,201**	**7,447**	**798,128**	**1,061,776**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

31 December 2019	***With floating interest rate %***	***With fixed interest rate %***	***Interest-free***	***Total***
Financial assets				
Cash in hand and balances in current account with the Central Bank	250,330	-	313	250,643
Receivables from banks	21,367	309,398	8,951	339,716
Financial assets at amortised cost – Loans and advances to customers	1,598,014	50,893	1,181	1,650,088
Financial assets at amortised cost – Receivables from the State budget	144,893	21,928	-	166,821
Financial assets at fair value through other comprehensive income – Debt instruments	-	596,967	-	596,967
Net investment in financial lease	9,735	-	-	9,735
Financial assets at amortised cost – Securities	-	12,144	-	12,144
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	3,578	3,578
Other financial assets	-	-	913	913
	2,024,339	**991,330**	**14,936**	**3,030,605**
Financial liabilities				
Deposits from credit institutions	7,877	-	-	7,877
Deposits from customers other than credit institutions	432,823	557,986	2,561	993,370
Borrowings from international institutions	1,078,917	133,020	-	1,211,937
Lease liabilities	-	488	-	488
Other borrowings	11,274	5,883	92,194	109,351
	1,530,891	**697,377**	**94,755**	**2,323,023**
Total interest rate exposure	**493,448**	**293,953**	**(79,817)**	**707,582**
Contingencies and commitments	**290,247**	**33,988**	**451,116**	**775,351**

Analysis of interest rate sensitivity and risk

The table below includes the financial instruments of the Group, presented at carrying value, classified by the earlier of the date of interest rate change under the contract and the maturity date.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

As of 31 December 2020	*Within 1 month*	*1-3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*over 5 years*	*With fixed interest rate*	*Interest-free*	*Total*
Financial assets									
Cash in hand and balances in current account with the Central Bank	495,678	-	-	-	-	-	-	601	**496,279**
Receivables from banks	23,081	75	-	-	-	-	442,993	12,551	**478,700**
Financial assets at amortised cost – Loans and advances to customers	87,979	1,691,361	807	513	1,405	-	45,682	1,503	**1,829,250**
Financial assets at amortised cost – Net investment in finance lease	531	38,638	24	45	174	-	-	199	**39,611**
Financial assets at amortised cost – Receivables from the State budget	57,824	-	-	-	-	-	-	-	**57,824**
Financial assets at amortised cost – Securities	-	-	-	-	-	10,126	1,930	-	**12,056**
Financial assets at fair value through other comprehensive income – Debt instruments	15,995	60,478	-	4,739	446,095	122,266	-	-	**649,573**
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	-	-	-	-	-	57,709	**57,709**
Other financial assets	-	-	-	-	-	-	-	16,021	**16,021**
Total financial assets	**681,088**	**1,790,552**	**831**	**5,297**	**447,674**	**132,392**	**490,605**	**88,584**	**3,637,023**
Financial liabilities									
Borrowings from international institutions	668	33,032	5,303	47,470	654,368	408,076	89,987	-	**1,238,904**
Deposits from customers other than credit institutions	942,812	928	4,532	4,678	-	-	-	27,541	**980,491**
Deposits from credit institutions	8,176	-	-	-	-	-	-	-	**8,176**
Other borrowings	-	11,237	-	-	-	73,772	-	2,296	**87,305**
Lease liabilities	-	169	-	-	-	-	-	110	**279**
Total financial liabilities	**951,656**	**45,366**	**9,835**	**52,148**	**654,368**	**481,848**	**89,987**	**29,947**	**2,315,155**
Total interest rate sensitivity exposure	**(270,568)**	**1,745,186**	**(9,004)**	**(46,851)**	**(206,694)**	**(349,456)**	**400,618**	**58,637**	**1,321,868**
Contingencies and commitments	277,845	232,518	5,061	20,000	1,594	-	7,447	517,311	**1,061,776**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

As of 31 December 2019	*Within 1 month*	*1-3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*Over 5 years*	*With fixed interest rate*	*Interest-free*	*Total*
Financial assets									
Cash in hand and balances in current account with the Central Bank	250,330	-	-	-	-	-	-	313	**250,643**
Receivables from banks	20,258	371	-	-	-	-	305,124	13,963	**339,716**
Financial assets at amortised cost - Loans and advances to customers	104,950	1,488,722	-	-	63	-	55,239	1,114	**1,650,088**
Financial assets at amortised cost – Receivables from the State budget	144,893	-	-	-	-	-	21,928	-	**166,821**
Financial assets at fair value through other comprehensive income – Debt instruments	42,495	11,107	5,166	21,046	290,261	226,892	-	-	**596,967**
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	-	-	-	-	-	3,578	**3,578**
Net investment in finance leases	732	9,003	-	-	-	-	-	-	**9,735**
Financial assets at amortised cost - Securities	-	-	-	-	-	10,194	1,950	-	**12,144**
Other financial assets	6	-	-	-	-	-	-	907	**913**
Total financial assets	**563,664**	**1,509,203**	**5,166**	**21,046**	**290,324**	**237,086**	**384,241**	**19,875**	**3,030,605**
Financial liabilities									
Deposits from credit institutions	7,877	-	-	-	-	-	-	-	**7,877**
Deposits from customers other than credit institutions	575,052	348	378,124	4,685	-	-	-	35,161	**993,370**
Borrowings from international institutions	98,324	118,538	862,055	-	-	-	133,020	-	**1,211,937**
Other borrowings	-	11,236	-	-	-	98,077	-	38	**109,351**
Lease liabilities	-	488	-	-	-	-	-	-	**488**
Total financial liabilities	**681,253**	**130,610**	**1,240,179**	**4,685**	**-**	**98,077**	**133,020**	**35,199**	**2,323,023**
Total interest rate sensitivity exposure	**(117,589)**	**1,378,593**	**(1,235,013)**	**16,361**	**290,324**	**139,009**	**251,221**	**(15,324)**	**707,582**
Contingencies and commitments	382,865	148,468	22,783	41	-	-	33,988	206,177	**794,322**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

Sensitivity of the floating interest rate assets and liabilities

The table below represents the sensitivity of the Group to possible changes in interest rates based on the structure of floating rate assets and liabilities as of 31 December, under the assumption that the influence of the other variables is ignored. The actual effect of changes in market interest rates could be different as a significant portion of the loans and receivables from customers bear floating interest rates limited downwards by interest rate "floor" based on a variable portion determined by the Group, which in turn is influenced by numerous factors.

	2020			**2019**		
Currency	***Increase/ Decrease %***	***Sensitivity of the financial result***	***Sensitivity of equity***	***Increase/ Decrease %***	***Sensitivity of the financial result***	***Sensitivity of equity***
BGN	0.50%	2,236	(6,235)	0.50%	3,086	(2,730)
EUR	0.50%	(1,247)	(7,261)	0.50%	(286)	(7,353)
USD	0.50%	(474)	(2)	0.50%	(249)	(6)
BGN	-0.50%	(2,236)	6,235	-0.50%	(3,086)	2,730
EUR	-0.50%	1,247	7,261	-0.50%	286	7,353
USD	-0.50%	474	2	-0.50%	249	6

The average interest rates by financial assets and financial liabilities are presented in the following table:

	31.12.2020	**31.12.2019**
Financial assets	2.06%	2.66%
Financial liabilities	0.63%	0.62%

Currency risk

The currency risk is the risk that the financial position and cash flows of the Group might be affected adversely by changes in exchange rates due to open currency positions. In managing the foreign currency risk, the Group follows the principle of maintaining minimum open currency positions within the specified limits. Foreign currency positions are not formed with speculative purposes, but arise out of foreign currency transactions in the ordinary course of business of the Group.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Interest rate risk (continued)

The policy of the Group is that the main portion of the assets and liabilities, and respectively the bank transactions, shall be denominated in EUR or BGN. The Group does not carry out significant transactions and does not hold significant open positions in currencies other than EUR and BGN. As the exchange rate of the Bulgarian lev is pegged to that of the Euro, there is no significant open currency risk for the Banks's cash flows and financial performance.

The currency risk is regarded with respect to the overall activity of the Group. Analyses of the financial assets and liabilities by types of currency of denomination are conducted on a regular basis.

The approach of measuring the overall activity currency risk includes mainly:

- Foreign currency sensitivity analysis – measuring the Group's income from foreign currency transactions;
- Determination, implementation and reporting of currency risk limits, reflecting the Group's risk appetite;
- Stress tests for currency risk, which present the potential change of annual income after the implementation of stress scenarios for exchange rate changes.

The currency risk analysis is performed by allocating the Group's assets and liabilities by types of currency of denomination, which facilitates the timely decision making regarding the Group's foreign currency policy, and in particular, the formation of specific products and ensuring sources of financing with relevant characteristics.

The Asset and Liability Management Committee (ALCO) monitors currently the currency risk to which the Group is exposed and develops measures for its management and maintenance within the limits acceptable to the Group.

The following table summarises the Group's exposure to currency risk. The table includes the Group's financial instruments and the contingent liabilities and commitments, presented at carrying amount, classified by type of currency.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

As of 31 December 2020	In USD	In EUR	In other foreign currency	In BGN	Total
Financial assets					
Cash in hand and balances in current account with the Central Bank	32	85,839	-	410,408	496,279
Receivables from banks	110,469	315,433	63	52,735	478,700
Financial assets at amortised cost – Loans and advances to customers	-	1,161,371	-	667,879	1,829,250
Financial assets at amortised cost – Receivables from the State budget	-	-	-	57,824	57,824
Net investment in finance leases	-	38,700	-	911	39,611
Financial assets at amortised cost – Securities	-	10,126	-	1,930	12,056
Financial assets at fair value through other comprehensive income – Debt Instruments	7,969	415,616	-	225,988	649,573
Financial assets at fair value through other comprehensive income – Equity Instruments	-	3,544	-	54,165	57,709
Other financial assets	-	14,082	-	1,939	16,021
Total financial assets	**118,470**	**2,044,711**	**63**	**1,473,779**	**3,637,023**
Financial liabilities					
Borrowings from international institutions	-	1,238,904	-	-	1,238,904
Deposits from customers other than credit institutions	118,393	456,507	-	405,591	980,491
Deposits from credit institutions	-	679	-	7,497	8,176
Lease liabilities	-	169	-	110	279
Other borrowings	-	16,931	-	70,374	87,305
Total financial liabilities	**118,393**	**1,713,190**	**-**	**483,572**	**2,315,155**
Net balance sheet currency position	**77**	**331,521**	**63**	**990,207**	**1,321,868**
Contingencies and commitments	**4,955**	**167,439**	**-**	**889,382**	**1,061,776**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

As of 31 December 2019	In USD	In EUR	In other foreign currency	In BGN	Total
Financial assets					
Cash in hand and balances in current account with the Central Bank	22	4,633	-	245,988	250,643
Receivables from banks	40,070	124,653	57	174,936	339,716
Financial assets at amortised cost - Loans and advances to customers	-	1,170,248	-	479,840	1,650,088
Financial assets at amortised cost – Receivables from the State budget	-	-	-	166,821	166,821
Financial assets at fair value through other comprehensive income – Debt Instruments	16,625	417,250	-	163,092	596,967
Net investment in finance leases	-	9,036	-	699	9,735
Financial assets at amortised cost – Securities	-	10,194	-	1,950	12,144
Financial assets at fair value through other comprehensive income – Equity Instruments	-	3,383	-	195	3,578
Other financial assets	-	-	-	913	913
Total financial assets	**56,717**	**1,739,397**	**57**	**1,234,434**	**3,030,605**
Financial liabilities					
Deposits from credit institutions	-	1,375	-	6,502	7,877
Deposits from customers other than credit institutions	56,704	160,406	1	776,259	993,370
Borrowings from international institutions	-	1,211,937	-	-	1,211,937
Lease liabilities	-	488	-	-	488
Other borrowings	-	17,119	-	92,232	109,351
Total financial liabilities	**56,704**	**1,391,325**	**1**	**874,993**	**2,323,023**
Net balance sheet currency position	**13**	**348,072**	**56**	**359,441**	**707,582**
Contingencies and commitments	1,509	148,916	-	643,897	794,322

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

The following table presents the Group's sensitivity to possible changes in exchange rates based on the structure of the assets and liabilities at 31 December.

2020

Currency	**Change in exchange rates***			**Effect on the pre-tax profit in case of change in exchange rates ***		**Effect on equity**
	Exchange rate	Decrease (BPS)	Increase (BPS)	Decrease	Increase	
EUR	1.95583	-	-	-	-	-
USD	1.59386	+991	-1,278	-196	278	-
JPY	0.01546	+8	-16	-	-	-
GBP	2.17549	-1,545	+1,480	-5	4	-
Total effect				**-201**	**+282**	**-**

2019

Currency	**Change in exchange rates ***			**Effect on the pre-tax profit in case of change in exchange rates ***		**Effect on equity**
	Exchange rate	Decrease (BPS)	Increase (BPS)	Decrease	Increase	
EUR	1.95583	-	-	-	-	-
USD	1.7410	+1,082	-1,396	-55	71	-
JPY	0.0160	+8	-17	-	-	-
GBP	2.2988	-1,632	+1,564	-4	+4	-
Total effect				**-59**	**+75**	**-**

*Calculated on the basis of 3-month change in fluctuation of exchange rate (historical period of 3 years) with degree of confidence 99%.

As of 31 December 2020, the open positions on currency and market volatility for the respective currencies would have an immaterial effect on the financial result of the Group, measured at an amount minus BGN 201 thousand in a hypothesis of adverse change in the exchange rates against the open positions by separate currencies of the Group by reported basis points (BPS: 1 b.p. = 0.0001 in decimal form).

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Price risk of shares quoted on a securities exchange

The Group is exposed to price risk with respect to the shares it holds, classified as investments at fair value through other comprehensive income. Management of the parent company monitors and analyses all changes in the security market, and engages the advisory services of renowned local investment intermediaries. In addition, at this stage management of the parent company has decided to greatly reduce the operations on the stock markets and the trade in the acquired shares, and currently monitors the financial and business indicators, reported by the respective issuer, as well as the development of its activities.

4.3. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its current and potential payment obligations as they fall due without suffering losses.

The Group's business requires a stable cash flow both to replace existing deposits and loans received prior to their maturity, and to satisfy demands of customers for additional loans. Undrawn borrowing facility commitments and the level of all outstanding contingent obligations are taken into consideration in managing the parent company's liquidity risk.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, as well as the impact of the changes in interest rates and exchange rates on the pre-tax profit and equity, are important factors in assessing the Group's liquidity. In order to manage this risk, the Group maintains at all times highly liquid assets depending on the currency of its liabilities.

The overall liquidity control and monitoring are performed by ALCO and are based on maturity tables with scenarios for measuring the net cash flows by periods, including nominal, realistic and pessimistic scenario, reflecting to a different degree the negative assumptions relating to loss of confidence by the customers, deterioration of the credit portfolio quality, negative assumptions about the banking market and other assumptions having an impact on the Group's liquid position and certain ratios enacted by Bulgarian National Bank. Additionally, a number of correlations are monitored to indicate the liquid position by periods. Liquidity risk is also measured through application of three additional scenarios for the cash flows from operating activities and monitoring the liquidity buffers of the parent company and the additional sources of financing in case of market and idiosyncratic shocks, representing loss of confidence by the market in a particular bank or banking group, which is tantamount to downgrading of the institution with two degrees at least and combined shocks in compliance with the Guidelines on liquidity buffers and survival periods of Bulgarian National Bank.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

The table below presents the amounts in percentage of the liquidity coverage ratio (LCR) of the Group:

	2020	**2019**
As of 31 December	551.91%	614.33%
Average for the period	682.21%	791.85%
Highest for the period	966.08%	1,121.19%
Lowest for the period	437.22%	419.98%

	2020	**2019**
Cash and cash balances with BNB	496,279	250,643
Balances in current accounts with other banks and international deposits of up to 90 days	283,078	204,120
Government and corporate debt securities	649,573	567,818
Liquid assets	**1,428,930**	**1,022,581**
Financial liabilities measured at amortised cost	2,315,155	2,323,023
Provisions	127,448	8,215
Liabilities	**2,442,603**	**2,331,238**
Liquid assets ratio (LAR)	**58.50%**	**43.86%**

The table below provides an analysis of the financial assets and liabilities of the Group grouped by remaining maturity (assets with indefinite maturity have a period of realisation of up to 1 month).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

As of 31 December 2020	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets						
Cash in hand and balances in current account with the Central Bank	496,279	-	-	-	-	496,279
Receivables from banks	294,215	66,097	25,358	58,364	34,666	478,700
Financial assets at amortised cost – Loans and advances to customers	157,937	29,058	153,600	643,054	845,601	1,829,250
Financial assets at amortised cost - Receivables from the State budget	9,573	21,575	26,676	-	-	57,824
Financial assets at amortised cost - Receivables under finance lease	812	1,091	4,888	20,807	12,013	39,611
Financial assets at amortised cost - Securities	-	-	11	-	12,045	12,056
Financial assets at fair value through other comprehensive income – Debt instruments	60,704	392,867	6,276	67,862	121,864	649,573
Financial assets at fair value through other comprehensive income – Equity instruments	57,709	-	-	-	-	57,709
Other financial assets	15,181	840	-	-	-	16,021
Total financial assets	**1,092,410**	**511,528**	**216,809**	**790,087**	**1,026,189**	**3,637,023**
Financial liabilities						
Borrowings from international institutions	668	33,032	95,820	654,368	455,016	1,238,904
Deposits from customers other than credit institutions	945,762	817	18,058	15,854	-	980,491
Deposits from credit institutions	8,155	-	-	-	21	8,176
Other borrowings	751	-	1,758	853	83,943	87,305
Guarantee provisions	127,448	-	-	-	-	127,448
Lease liabilities	-	169	110	-	-	279
Total financial liabilities	**1,082,784**	**34,018**	**115,746**	**671,075**	**538,980**	**2,442,603**
Gap in maturity thresholds of assets and liabilities	**9,626**	**477,510**	**101,063**	**119,012**	**487,209**	**1,194,420**
Contingencies and commitments	**328,258**	**6,463**	**119,208**	**476,976**	**135,565**	**1,066,470**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

As of 31 December 2019	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash in hand and balances in current account with the Central Bank	250,643	-	-	-	-	250,643
Receivables from banks	198,765	29,411	3,725	84,132	23,683	339,716
Financial assets at amortised cost – Loans and advances to customers	120,498	53,173	168,097	556,141	752,179	1,650,088
Financial assets at amortised cost – Receivables from the State budget	7,617	29,478	126,194	3,532	-	166,821
Financial assets at fair value through other comprehensive income – Debt instruments	43,166	13,664	27,384	287,759	224,994	596,967
Financial assets at amortised cost – Receivables under finance lease	113	161	733	3,764	4,964	9,735
Net investment in financial lease						
Financial assets at amortised cost - Securities	-	-	11	-	12,133	12,144
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	-	-	3,578	3,578
Other financial assets	44	-	869	-	-	913
Total financial assets	**620,846**	**125,887**	**327,013**	**935,328**	**1,021,531**	**3,030,605**
Financial liabilities						
Deposits from credit institutions	7,877	-	-	-	-	7,877
Deposits from customers other than credit institutions	577,377	971	390,504	24,396	122	993,370
Provisions	8,215	-	-	-	-	8,215
Lease liabilities	10	20	92	366	-	488
Borrowings from international institutions	676	21,015	99,038	541,548	549,660	1,211,937
Other borrowings	38	-	213	853	108,247	109,351
Total financial liabilities	**594,193**	**22,006**	**489,847**	**567,163**	**658,029**	**2,331,238**
Gap in maturity thresholds of assets and liabilities	**26,653**	**103,881**	**(162,834)**	**368,165**	**363,502**	**699,367**
Contingencies and commitments	**310,368**	**9,749**	**156,770**	**196,538**	**101,926**	**775,351**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

The table below presents the gross undiscounted cash flows related to the Group's liabilities as of 31 December:

As of 31 December 2020	Carrying amount	Gross flow	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years
Financial liabilities							
Borrowings from international institutions	1,238,904	1,315,769	668	33,215	96,363	689,822	495,701
Deposits from customers other than credit institutions	980,491	980,688	945,763	818	18,073	16,034	-
Deposits from credit institutions	8,176	8,176	8,155	-	-	-	21
Lease liabilities	279	279	-	169	110	-	-
Other borrowings	87,305	88,683	751	28	1,843	1,262	84,799
	2,315,155	**2,393,595**	**955,337**	**34,230**	**116,389**	**707,118**	**580,521**
Credit guarantee and bank guarantee provisions	127,368	127,368	6,556	12	96	56,871	63,833
Unutilised credit commitments	264,318	264,318	17,919	1,566	102,771	133,062	9,000

As of 31 December 2019	Carrying amount	Gross flow	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years
Financial liabilities							
Borrowings from credit institutions	7,877	7,877	7,877	-	-	-	-
Deposits from customers other than credit institutions	993,370	993,632	577,432	972	390,793	24,312	123
Borrowings from international institutions	1,211,937	1,292,310	676	20,405	99,422	563,028	608,779
Other borrowings	109,351	110,836	-	67	301	93,471	16,997
	2,322,535	**2,404,655**	**585,985**	**21,444**	**490,516**	**680,811**	**625,899**
Bank guarantee provisions	8,098	8,307	511	1675	3,798	2323	-
Unutilised credit commitments	294,991	323,249	54,313	43,801	90,140	134,795	200

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

Considering the specific activity of the Group, the funds attracted from the biggest 20 non-bank depositors at 31 December 2020 represent 88.08% of the total amount of payables to other customers (31 December 2019: 93.98%). The share of the biggest non-bank depositor of the total amount of payables to other customers is 15.82% (31 December 2019: 38.24%).

The Group's financial assets available to be pledged for future financing and the financial assets pledged as collateral for financial liabilities are presented in the table below:

As of 31 December 2020

Financial assets	**Pledged as collateral**	**Available for collateral**	**Other***	**Total**
Cash in hand and balances in current account with Central Bank	-	329,875	166,404	496,279
Receivables from banks	12,551	466,149	-	478,700
Financial assets at amortised cost – Loans and advances to customers	-	1,219,131	610,119	1,829,250
Financial assets at amortised cost – Receivables from the State budget	-	57,824	-	57,824
Financial assets at amortised cost - Net investment in finance leases	-	39,611	-	39,611
Financial assets at amortised cost – Securities	-	12,056	-	12,056
Financial assets at fair value through other comprehensive income – Debt instruments	6,488	643,085	-	649,573
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	57,709	57,709
Other financial assets	-	1,575	14,446	16,021
Total financial assets	**19,039**	**2,769,306**	**848,678**	**3,637,023**

*__Other__ are financial assets that are not encumbered and there are no restrictions to be used as collateral, but the Group would not consider them as available for future financing in the normal course of business.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

As of 31 December 2019

Financial assets	Pledged as collateral	Available for collateral	Other*	Total
Cash in hand and balances in current account with Central Bank	-	76,759	173,884	250,643
Receivables from banks	12,756	326,960	-	339,716
Financial assets at amortised cost – Loans and advances to customers	-	1,266,120	383,968	1,650,088
Financial assets at amortised cost – Receivables from the State budget	-	166,821	-	166,821
Financial assets at amortised cost - Net investment in finance leases	-	9,735	-	9,735
Financial assets at amortised cost – Securities	-	12,144	-	12,144
Financial assets at fair value through other comprehensive income – Debt instruments	6,623	587,566	2,778	596,967
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	3,578	3,578
Other financial assets	-	-	913	913
Total financial assets	**19,379**	**2,446,105**	**565,121**	**3,030,605**

At 31 December 2020, funds amounting to BGN 12,551 thousand (2019: BGN 12,756 thousand) were blocked in counter-guarantees of two corporate customers, maturing as follows:

Receivables from banks pledged as collateral as per maturity interval	2020	2019
On demand	-	-
From 91 to 180 days	3,509	3,137
From 181 to one year	2,721	542
Over one year	6,321	9,077
	12,551	**12,756**

At 31 December 2020, securities on a legal requirement to provide for funds of the State budget amounting to BGN 6,488 thousand (2019: BGN 6,623 thousand) were blocked.

Review of the size, development and the credit quality of the unencumbered assets is done once a year.

*"**Other**" are financial assets that are not encumbered and there are no restrictions to be used as collateral, but the Group would not consider them as available for future financing in the normal course of business.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.4. Operational risk

Risk Management, together with other Group divisions, monthly monitors and reports to ALCO on the ratios between the encumbered assets and the total carrying amount of the Group's assets. In a case of excess above the limits approved by the Management Board, ALCO reports back to the MB for undertaking corrective actions.

The main sources of operational risk within the Group are its personnel, processes, systems and external events. The Group designated the following as the major types of operational risk:

- Risk of loss due to inadequate or poorly working internal processes;
- Risk of loss due to inadequate, illegal and/or incorrect acts and omissions of personnel;
- Risk of loss due to inadequate or poorly working systems;
- Risk of loss due to external events, including legal risk.

Operational risk management is based on the principles of not taking unreasonable risks, strict compliance with the levels of competence and the applicable legislation. The Group applies reliable methods for limiting the impact of operational risks, including by dividing the functions and responsibilities, introducing double-checking control, levels of competence, internal control, etc. In addition, control procedures for reducing the operational risk are added to all internal rules and procedures of the Group.

In operational risk management all operational events, which occur in the activity of various units and processes of the Group, are strictly monitored and registered, while the events of higher frequency, as well as those of significant importance, serve as bases for the operational risk analyses in different scenarios. The operational risk is measurable and monitorable, and in the process of work an operational event register is kept, which is used as a basis for analysing and improving the work processes, and minimising the conditions that would potentially result in operational events and loss for the Group. For the purposes of measuring its operational risk, the Group has decided to apply the "Basic indicator method".

4.5 Equity management

The main objectives of the Group's capital management are to maintain its level at amounts sufficient for activity developing and achieving the general objectives set at its foundation – to support the economic policy of the country and the development of small and medium-sized businesses.

In its activities the Group should observe the regulatory requirements for capital adequacy (Notes 35, 36), as well as to continue operating as a going concern.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.5 Equity management (continued)

The table below presents the main equity components following the regulatory requirements and ratios achieved on a consolidated group (as a Bank group) level:

	2020	2019
OWN FUNDS	1,056,889	750,018
TIER I CAPITAL	1,056,889	750,018
COMMON EQUITY TIER I CAPITAL	1,056,889	750,018
Share capital	1,301,774	601,774
Loss	(230,737)	-
Statutory reserves	87,185	74,202
Additional reserves	82,125	82,827
Accumulated other comprehensive income	(64,000)	16,638
Intangible assets	(8,087)	(4,680)
Investments in subsidiaries	(58,599)	(20,345)
(-) Common Equity Tier 1 instruments of financial sector entities when the institution has significant investments	(50,324)	-
Value adjustments due to prudential assessment requirements	(714)	(603)
Transitional adjustments to CET1 Capital	7,109	8,633
Deductible deferred tax assets that are based on future profit and arise from temporary differences	(8,843)	(15)
Components of or deductions from CET 1 Capital - other	-	(8,413)
ADDITIONAL TIER I CAPITAL	-	-
TIER II CAPITAL	-	-
TOTAL RISK EXPOSURES	3,223,429	2,702,963
Credit risk - Standardised approach	3,093,129	2,576,888
Central governments or central banks	-	86,271
Regional governments or local authorities	1,930	1,965
Public sector entities	-	21,938
Multilateral development banks	939	939
Institutions	183,053	149,580
Corporates	1,961,293	1,621,640
Retail	142,324	14,920
Secured by mortgages on immovable property	411,185	380,034
Exposures in default	219,703	210,312
Items associated with particular high risk	41,033	2,934
Equity exposures	10,191	196
Other items	121,478	86,159
Currency and commodity risk	-	-
Operational risk - Basic indicator approach	130,300	126,075

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.5 Equity management (continued)

	2020	2019
CET 1 Capital Ratio	**32.79%**	**27.75%**
Total Capital Ratio	**32.79%**	**27.75%**
Capital conservation buffer	*80,586*	*67,574*
Systemic risk buffer	*96,703*	*81,089*
Institution-specific countercyclical capital buffer	*16,117*	*13,515*
Buffer of other institutions of systemic importance	*16,117*	*6,757*
Regulatory required levels		
Institution-specific countercyclical capital buffer	*6.25%*	*6.25%*
Systemic risk buffer	*7.75%*	*7.75%*
Buffer of other institutions of systemic importance	*9.75%*	*9.75%*
Capital conservation buffer	*2.50%*	*2.50%*
Systemic risk buffer	*3.00%*	*3.00%*
Institution-specific countercyclical capital buffer	*0.50%*	*0.50%*
Buffer of other institutions of systemic importance	*0.50%*	*0.25%*

By decision of BNB No93 of 15 March 2019, an additional requirement for Common Equity Capital was imposed on the BDB on the basis of Art. 103a, para. 2, item 5 of the Law on Credit Institutions, exceeding the requirements of Art. 92, para 1 of Regulation (EU) No 575/2013 of 1.75% to risk-weighted assets, or a minimum total capital adequacy of 9.75%.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

5. FAIR VALUE DISCLOSURE

The table below presents the carrying amount and fair values of assets and liabilities, including their levels in the fair value hierarchy:

As of 31 December 2020		Carrying amount				Fair value			
	Note	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Other	Total	Level 1	Level 2	Level 3	Total
Assets at fair value									
Financial assets at fair value through other comprehensive income – Debt instruments	21	-	649,573	-	**649,573**	649,573	-	-	**649,573**
Financial assets at fair value through other comprehensive income – Equity instruments *	21		57,709	-	**57,709**	52,926	-	3,650	**56,576**
Assets acquired from collateral foreclosure	27	-	-	33,938	**33,938**	-	-	33,938	**33,938**
Investment property	25	-	-	7,608	**7,608**	-	-	7,608	**7,608**
		-	**707,282**	**41,546**	**748, 828**	**702,499**	**-**	**45,196**	**747,695**
Financial assets not measured at fair value									
Cash in hand and balances in current account with the Central Bank	16	496,279	-	-	**496,279**	-	496,279	-	**496,279**
Loans to banks	17	86,807	-	-	**86,807**	-	92,190	-	**92,190**
Current accounts and term deposits of banks	17	391,893	-	-	**391,893**	-	391,654	-	**391,654**
Financial assets at amortised cost – Loans and advances to customers	18	1,829,250	-	-	**1,829,250**	-	1,890,643	-	**1,890,643**
Financial assets at amortised cost – Receivables from the State budget	19	57,824	-	-	**57,824**	-	64,303	-	**64,303**
Financial assets at amortised cost – Securities	20	12,056	-	-	**12,056**	13,474	1,890	-	**15,364**
Financial assets at amortised cost – Finance lease receivables	22	39,611	-	-	**39,611**	-	40,060	-	**40,060**
Other financial assets		16,021	-	-	**16,021**	-	16,021	-	**16,021**
		2,929,741	**-**	**-**	**2,929,741**	**13,474**	**2,993,040**	**-**	**3,006,514**
Financial liabilities not measured at fair value									
Deposits from credit institutions - Current accounts and term deposits of banks	28	-	-	8,176	**8,176**	-	8,176	-	**8,176**
Deposits from customers other than credit institutions	29	-	-	980,491	**980,491**	-	980,790	-	**980,790**
Borrowings from international institutions	30	-	-	1,238,904	**1,238,904**	-	1,289,839	-	**1,289,839**
Other borrowings and liabilities	31	-	-	87,305	**87,305**	-	88,865	-	**88,865**
		-	**-**	**2,314,876**	**2,314,876**	**-**	**2,367,670**	**-**	**2,367,670**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

5. FAIR VALUE DISCLOSURE (CONTINUED)

As of 31 December 2019		Carrying amount				Fair value			
	Note	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Other	Total	Level 1	Level 2	Level 3	Total
Assets at fair value									
Financial assets at fair value through other comprehensive income – Debt instruments	21	-	596,967	-	**596,967**	596,967	-	-	**596,967**
Financial assets at fair value through other comprehensive income – Equity instruments *	21		3,578	-	**3,578**	2,607	-	-	**2,607**
Assets acquired from collateral foreclosure	27	-	-	35,187	**35,187**	-	-	35,187	**35,187**
Investment property	25	-	-	7,484	**7,484**	-	-	7,484	**7,484**
		-	**600,545**	**42,671**	**643,216**	**599,574**	**-**	**42,671**	**642,245**
Financial assets not measured at fair value									
Cash in hand and balances in current account with the Central Bank	16	250,643	-	-	**250,643**	-	250,643	-	**250,643**
Loans to banks	17	98,910	-	-	**98,910**	-	105,913	-	**105,913**
Current accounts and term deposits of banks	17	240,806	-	-	**240,806**	-	240,806	-	**240,806**
Financial assets at amortised cost – Loans and advances to customers	18	1,650,088	-	-	**1,650,088**	-	1,705,882	-	**1,705,882**
Financial assets at amortised cost – Receivables from the State budget	19	166,821	-	-	**166,821**	-	181,607	-	**181,607**
Financial assets at amortised cost – Securities	20	12,144	-	-	**12,144**	13,759	1,987	-	**15,746**
Financial assets at amortised cost – Finance lease receivables	22	9,735	-	-	**9,735**	-	9,735	-	**9,735**
		2,429,147	**-**	**-**	**2,429,147**	**13,759**	**2,496,573**	**-**	**2,510,332**
Financial liabilities not measured at fair value									
Deposits from credit institutions - Current accounts and term deposits of banks	28	-	-	7,877	**7,877**	-	7,877	-	**7,877**
Deposits from customers other than credit institutions	29	-	-	993,370	**993,370**	-	993,556	-	**993,556**
Borrowings from international institutions	30	-	-	1,211,937	**1,211,937**	-	1,274,018	-	**1,274,018**
Other borrowings	31	-	-	109,351	**109,351**	-	110,532	-	**110,532**
		-	**-**	**2,322,535**	**2,322,535**	**-**	**2,385,983**	**-**	**2,385,983**

* The fair value of securities classified as investments with carrying amount of BGN 1,133 thousand at 31 December 2020 (2019: BGN 971 thousand) carried at cost has not been disclosed as the Group deems it cannot be measured reliably.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

5. FAIR VALUE DISCLOSURE (CONTINUED)

Fair value of assets measured at fair value is presented in the following table by types of assets as at the reporting date. The Group discloses voluntary the fair values the assets acquired from collateral foreclosure as of 31 December 2020 and 31 December 2019.

Financial instrument	**Fair value as of 31.12.2020**	**Fair value as of 31.12.2019**	**Fair value hierarchy**	**Valuation techniques**	**Significant unobservable inputs**	**Relationship of unobservable inputs to fair value**
Financial assets at fair value through other comprehensive income – Debt instruments	649,573	596,967	Level 1	Quotes on a regulated market	None	None
Financial assets at fair value through other comprehensive income – Equity instruments	52,926	2,607	Level 1	Quotes on a regulated market	None	None
Financial assets at fair value through other comprehensive income - Equity instruments	3,650	-	Level 3	Discounted future cash flows The revenue method for preparing a share valuation is an analysis of the share value of the assessed enterprise, based on its ability to generate income by distributing dividends, as well as an estimate of the terminal value when selling shares. Determining the value of the assessed share is based on the permanently realized net annual income of the enterprise, which is distributed among the shareholders, based on estimated income, expenses, investment and financial cash flows. For the terminal value are taken similar transactions and/or sales at similar ratios - price/profit, price/revenue, multiplier of EBITDA or others.	Industry analyzes, evaluation of the company's business plan, coefficients and multipliers for private transactions.	Fair value will increase/decrease at: - Favorable/unfavorable development in the industry sector - Favorable/unfavorable positioning of the enterprise in the industry sector - Favorable/unfavorable development of the coefficients and multipliers of the assessed enterprise compared to similar companies

All amounts are in thousand Bulgarian Levs, unless otherwise stated

5. FAIR VALUE DISCLOSURE (CONTINUED)

Type of asset	Fair value as of	Fair value as of	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31.12.2020	**31.12.2019**				
Investment property	7,608	7,484	Level 3	Market analogues method Under the market analogues method an assessment is made by directly comparing the property under review with sold similar properties; the price is determined on the basis of the price range for similar properties or prices per sq. m. from previous transactions. When applying this approach, it is necessary to use actually similar data of the comparable properties, the properties should be in the same location and the timing of the transaction and the date of preparation of the evaluation should be close enough. Currently investment properties are valued between BGN 109 and 1,523 per sq. m. Income capitalisation method (revenue method) The revenue method, used for assessing the real estate value, consists of an analysis of the value of the real estate based on its ability to generate income through capitalisation of the net income derived from the property over a given period. For the determination of the evaluated property's amount, the permanently generated net annual income is used and its amount is calculated on the basis of the actual or possible permanently achieved rental income, which in turn is calculated on the basis of the average offered rent in the area (observable inputs), by taking into account the condition of the building fund and the residual term of use.	1. Market realisation coefficient (0.8-0.95) 2. Location coefficient (0.81-1.0) 3. Coefficient of specific features (status) (0.8-1.1) 4. Offer market adequacy adjustment coefficient (from -10% to +5%) Income capitalisation method (revenue method): 1. rent per sq. m. – 1-14 BGN/sq. m. 2. price increase assumptions – 0-10% 3. levels of free non-rented premises – 3-25% 4. discount rate – 5-9%	The higher (lower) fair value if: · Higher (lower) market realisation coefficient). · Higher (lower) location coefficient (status) · Higher (lower) coefficient of specific features (status) · Higher (lower) offer market adequacy adjustment coefficient.
Assets acquired from collateral foreclosure	33,938	35,187	Level 3			

All amounts are in thousand Bulgarian Levs, unless otherwise stated

5. FAIR VALUE DISCLOSURE (CONTINUED)

Fair values of financial assets and liabilities that are not measured at fair value, but a disclosure at fair value is required.

Financial instrument	Fair value as of 31.12.2020	Fair value as of 31.12.2019	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Loans to banks	92,190	105,913	Level 2	Discounted cash flows Future cash flows are discounted by EURIBOR for 12 months but not less than 0, adjusted for yield curve of Bulgarian government securities on primary market according to Bloomberg publication.	N/A	N/A
Loans and advances to customers	1,890,643	1,705,882	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB interest rates (unadjusted) of new loans for December 2020.	N/A	N/A
Receivables from the State budget	64,303	181,607	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December 2020.	N/A	N/A

All amounts are in thousand Bulgarian Levs, unless otherwise stated

5. FAIR VALUE DISCLOSURE (CONTINUED)

Financial instrument	Fair value as of 31.12.2020	Fair value as of 31.12.2019	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets at amortised cost – Securities	15,364	15,746	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB interest rates (unadjusted) of new loans to non-financial entities for December 2020.	N/A	N/A
Financial assets at amortised cost – Lease receivables	40,060	9,735	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB interest rates (unadjusted) of new loans to non-financial entities for December 2020	N/A	N/A
Other borrowings	86,584	110,532	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December 2020.	N/A	N/A
Borrowings from international institutions	1,289,839	1,274,018	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December 2020.	N/A	N/A

For the assets and liabilities in the statement of financial position not disclosed in the table the Group’s management is of the opinion that their fair value approximates their carrying amount.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

6. NET INTEREST INCOME

	2020	2019
Interest income		
Loans and advances to customers	71,119	60,815
Loans to banks	1,426	1,538
Deposits placed with other banks	130	4,094
Receivables from the State budget	2,742	6,284
Net investment in finance leases	813	92
Securities at amortised cost	261	261
Financial assets at fair value through other comprehensive income	4,393	1,950
Other liabilities (income from negative interest)	587	239
	81,471	**75,273**
Incl. Interest income on financial assets at amortized cost classified as Stage 3	16,969	13,979
Interest expense		
Borrowings from international institutions	(15,802)	(9,848)
Deposits from customers	(290)	(552)
Other borrowings	(120)	(121)
Finance lease	(68)	(28)
Deposits from other banks	(1)	(152)
Other assets (expenses on negative interest)	(3,565)	(657)
	(19,846)	**(11,358)**
Net interest income	**61,625**	**63,915**

Except for interest income from financial assets at fair value through other comprehensive income and from finance lease, interest income arises from financial assets at amortized cost and is recognized using the effective interest rate method.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

7. NET FEE AND COMMISSION INCOME

	2020	2019
Fee and commission income		
Issuance of guarantees and letters of credit	3,790	3,654
Services relating to transactions *	2,023	1,964
Account maintenance	104	60
Total fee and commission income under contracts with customers	**5,917**	**5,678**
Other charges	461	59
Total fee and commission income	**6,378**	**5,737**
Fee and commission expense		
Fees for co-management of anti-COVID guarantees	(1,530)	-
Servicing of accounts in other banks	(45)	(3)
Agency commissions	(35)	(31)
Bank transfers and cash operations with other banks	(5)	(39)
Other fees	(48)	-
Total fee and commission expenses	**(1,663)**	**(73)**
Net fee and commission income	**4,715**	**5,664**

***** The transaction-related services include operation on a trust basis of funds of special-purpose funds of the Ministry of Agriculture and Foods and Executive Agency Fisheries and Aquacultures: BGN 1,310 thousand (2019: 1,039 thousand). Further details of the programmes are given in Note 31.

Fee and commission income represents revenue recognized under IFRS 15 Revenue from contracts with customers (see Note 3.5. for details regarding recognition of fee and commission income). Sources of the income are transactions performed on the territory of Bulgaria. The prices of the respective services are fixed.

8. NET GAIN ON FOREIGN EXCHANGE DEALS

	2020	2019
Net gain on dealing in foreign currencies	468	428
Net (loss)on foreign currency translation of assets and liabilities	-	(7)
	457	**421**

9. NET GAIN ON FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020	2019
Net gain on dealing in securities measured at fair value through OCI	2,432	3,687
	2,432	**3,687**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

10. OTHER OPERATING INCOME

	2020	2019
Income from rent of investment property	671	539
Refunded litigation expenses	259	516
Dividends received	26	36
Proceeds from disposal of FTA	51	8
Proceeds from revaluation of investment property	153	-
Other income	1,126	836
	2,286	**1,935**

11. OTHER OPERATING EXPENSES

	2020	2019
Withholding tax	-	(723)
Expenses related to assets held for sale	(379)	(353)
Direct operating expenses relating to investment property	(206)	(211)
Litigation expenses	(27)	(188)
Expenses on disposal of FTAs	-	(7)
Goodwill impairment – controlled entities	(17)	-
Other expenses	(271)	(70)
	(900)	**(1,552)**

12A. EXPENSES ON IMPAIRMENT OF NON-FINANCIAL ASSETS, NET

	2020	2019
(Expenses on)/Income from reversed impairment of assets acquired from collateral foreclosure	(3,281)	(68)
Impairment of interest in subsidiaries*	(1,287)	-
Expenses on impairment of non-financial assets, net	**(4,568)**	**(68)**

12B. EXPENSES ON IMPAIRMENT OF FINANCIAL ASSETS, NET

	2020	2019
(Expenses on)/Income from/reversed impairment of loans, net	(138,871)	(30,850)
(Expenses on)/Income from reversed impairment under unutilised loans	80	71
Income from / (expenses on) reversed impairment on finance lease	(274)	(42)
(Expenses on)/Income from reversed guarantee provisions, net	(118,912)	(181)
Expenses on /Income from reversed allowances for impairment of securities at fair value through OCI, net	(784)	670
Expenses on /Income from reversed allowances for impairment of securities at amortised cost, net	(61)	13
Expenses on impairment of financial assets, net	**(258,822)**	**(30,319)**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

13A. EMPLOYEE BENEFITS

	2020	2019
Staff remuneration and social security	(17,509)	(14,033)
Remuneration to members of the Management and Supervisory Boards	(3,144)	(2,292)
	(20,653)	**(16,325)**

	2020	2019
Personnel costs consist of:		
Salaries	(15,360)	(12,160)
Social security	(1,838)	(1,593)
Social benefits	(186)	(176)
Amounts accrued on retirement benefits	(125)	(104)
	(17,509)	**(14,033)**

13B. GENERAL AND ADMINISTRATIVE EXPENSES

	2020	2019
Contribution to the Bank Resolution Fund (BRF)	(7,740)	(5,389)
Office and office equipment maintenance	(1,508)	(1,058)
Communications and IT services	(1,374)	(888)
Advertising and entertainment expenses	(1,135)	(1,927)
Hired services	(1,004)	(1,113)
Audit services by the registered auditing companies	(961)	(665)
Bank supervision fees	(681)	-
Legal and consulting services	(408)	(236)
Taxes and government charges	(285)	(264)
Advisory services by the registered auditing companies	(269)	(50)
Contribution to the Bulgarian Deposit Insurance Fund (BDIF)	(61)	(59)
Business trips	(32)	(96)
Rent	(11)	-
	(15,469)	**(11,745)**

The amounts charges for the year for services provided by the registered audit firms of the Company include: independent financial audit: BGN 961 thousand (2019: BGN 665 thousand), including agreed-upon procedures for BGN 48 thousand (2019: BGN 43 thousand), tax advisory services: BGN 0 (2019: BGN 0), other services not related to audit: BGN 269 thousand (2019: BGN 50 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

14. TAXATION

	2020	2019
Current tax expense	75	2,219
Deferred tax (benefit from)/expense for deferred tax due to temporary differences	(352)	21
Total current tax (benefit)/expense	**(277)**	**2,240**

	2020	2019
Accounting (loss)/profit	(231,765)	13,967
Income tax calculated at the effective tax rate (10% for 2020, 10% for 2019)	23,177	(1,397)
Tax on non-deductible expenses	(241)	(994)
Tax on non-deductible income	9,185	151
Unrecognised asset for tax loss	(31,844)	-
Total tac (expense)/profit	**277**	**(2,240)**
Effective tax rate	n/a	16.04%

The deadline for the Group companies to deduct loss from future profits is 31.12.2025.
Outstanding balances of deferred taxes relate to the following items of the consolidated statement of financial position and changes in the statement of comprehensive income:

	Assets		Liabilities		Changes in the statement of comprehensive income	
	2020	2019	2020	2019	2020	2019
Property and equipment	(6)	(17)	-	-	11	(2)
Other assets	(97)	(261)	-	-	164	(29)
Guarantee portfolio	-	-	-	-	-	-
Other liabilities	(26)	(14)	82	-	70	-
Securities at fair value through other comprehensive income	(8,950)	-	-	680	(9,630)	680
Investment property	-	-	153	-	153	-
	(9,079)	**(292)**	**235**	**680**	**(9,232)**	**649**

The changes in the temporary differences during the year are recognised in the consolidated statement of comprehensive income.

The probability that the individual differences might reverse in the future and the Group's ability to generate sufficient taxable profit have also been taken into account on recognising deferred tax assets.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

15. NET CHANGE IN THE FAI RVALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, NET OF TAXES

	2020	2019
Gain on /(loss from) impairment of financial assets at fair value through other comprehensive income – debt instruments, occurred throughout the year	1,051	(480)
Gain on /(loss from) revaluation of equity instruments occurred throughout the year	(90,781)	6,961
10% tax	9,078	(696)
Other comprehensive income for the year, net of taxes	**(80,652)**	**5,785**

16. CASH IN HAND AND BALANCES IN CURRENT ACCOUNT WITH THE CENTRAL BANK

	2020	2019
Cash in hand	601	313
Current accounts	495,678	250,330
Incl. Minimum statutory reserves	*166,404*	*173,860*
Total cash with the Central Bank	**495,678**	**250,330**
Total cash in hand and in accounts with the Central Bank	**496,279**	**250,643**

The parent company maintains amounts depending on the risk-weighted assets as Minimum statutory reserves with BNB. Deposits with the Central Bank bear interest rate of -0.60% on the excess over 105% of MSR (2019: -0.70%).

17. RECEIVABLES FROM BANKS

	2020	2019
Current accounts and demand deposits with local banks	517	588
Current accounts and demand deposits with foreign banks	35,375	33,843
Total current accounts and demand deposits	**35,892**	**34,431**
incl. Current accounts with an original maturity of less than 90 days	*23,340*	*21,212*
Term deposits with local banks (incl. repo deals)	153,790	157,771
Term deposits with foreign banks (incl. repo deals)	202,211	48,604
Total term deposits	**356,001**	**206,375**
incl. Current accounts with an original maturity of less than 90 days	*259,737*	*182,908*
Loans to local banks	88,795	101,007
Loans to foreign banks	-	177
Total loans	**88,795**	**101,184**
Adjustment for impairment and uncollectability of banks’ receivables	(1,988)	(2,274)
	478,700	**339,716**

At 31 December 2020, special-purpose loans, denominated and BGN and EUR, with original maturity of up to 10 years and interest rate levels ranging from 1.40% to 4.50% (2019: 1.40% to 4.50%), were extended to local banks with the aim to develop small and medium-sized enterprises.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

17. RECEIVABLES FROM BANKS (CONTINUED)

Funds amounting to BGN 12,552 thousand were blocked in current accounts with foreign banks to cover letters of credit (2019: BGN 12,756 thousand).

At 31 December 2020, loans denominated in foreign currency with nominal amount of EUR 5,745 thousand and equivalent to BGN 11,236 thousand were provided to local banks (31 December 2019 – EUR 5,745 thousand and equivalent to BGN 11,236 thousand), with an original maturity until 2027 and repayment of the loans in four instalments. These are special-purpose loans extended to banks for direct lending to customers with the aim to develop small and medium-sized enterprises (SMEs) in accordance with a loan financing by the Ministry of Finance with funds provided by KfW.

18. LOANS AND ADVANCES TO CUSTOMERS

	2020	**2019**
Loans (gross amount)	2,087,855	1,811,403
Allowance for impairment and uncollectability of loans	(258,605)	(161,315)
	1,829,250	**1,650,088**

	2020	**2019**
A. Analysis by customer type		
Corporate and sole traders	2,085,174	1,802,259
Municipalities	427	7,078
Individuals	2,254	2,066
	2,087,855	**1,811,403**

An analysis of customers by industry is presented on the next page.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	2020	2019
Analysis by industry sector		
Industry, total	435,264	463,645
Industry – manufacture of tobacco products	*148,640*	*148,684*
Industry – manufacture of plant and equipment	*78,015*	*81,510*
Industry – energy generation and distribution	*115,818*	*61,782*
Industry – manufacture of food products	*46,823*	*46,853*
Industry – other industries	*45,968*	*124,816*
Trade	458,169	324,542
Tourist services	268,435	267,310
Transport	257,313	233,118
Financial services	215,319	87,536
Construction	159,226	169,146
Government sector	128,516	78,843
Real estate transactions	58,149	56,493
Agriculture	48,402	53,588
Collection and disposal of waste	-	246
Other industries	59,062	76,936
	2,087,855	**1,811,403**

The Group finance mainly the activities of small and medium-sized enterprises, as well as investment projects to achieve return from 5 to 10 years.

C. Movement in the allowance for loan impairment and uncollectability

	2020	2019
At 1 January	**161,315**	**163,156**
Impairment costs	168,611	49,605
Reversed impairment	(29,740)	(18,755)
Written-off against impairment	(41,581)	(32,691)
At 31 December	**258,605**	**161,315**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

19. RECEIVABLES FROM THE STATE BUDGET

	2020	2019
Acquired receivables	-	22,118
Energy Efficiency of Multi-Family Buildings National Programme	57,975	145,140
Adjustment for impairment and uncollectability of loans	(151)	(437)
	57,824	**166,821**

At 31 December 2020, the receivables classified as Receivables from the State budget – Acquired receivables represent receivables originating from assignment contracts with debtors - secondary budget spending units. The acquired receivables as of 31 December 2020 amount to BGN 0 thousand (as of 31.12.2019: BGN 21,928 thousand).

By Decree No. 18 of 2 February 2015, the Council of Ministers of the Republic of Bulgaria approved National Program for Energy Efficiency of Multi-Family Buildings (NPEEMFB) (the Program) on the terms and conditions for grants award under the Program and for designating the bodies that will be in charge of its implementation. The financing under the Program goes through BDB. For the purpose, the Bank concludes trilateral agreements with regional governors (representatives of the State) and municipal mayors (authorized representatives of the owners' associations). The parent company is of the opinion that the existing receivables bear a minimal credit risk in so far as the source of the payments is the budget of the Republic of Bulgaria.

The resources attracted by international partners for the purpose of financing the Program are covered by a State guarantee (see Note 30).

Funds utilised and not paid under the Program as of 31 December 2020 amounted to BGN 57,824 thousand (at 31 December 2019: BGN 144,893 thousand).

20. SECURITIES MEASURED AT AMORTIZED COST

The available securities, financial assets measured at amortized cost as of 31 December 2020 are as follows:

2020	**Amortized cost**	**Impairment**	**Carrying amount**
Bonds denominated in BGN	12,204	(148)	12,056
	12,204	**(148)**	**12,056**

2019	**Amortized cost**	**Impairment**	**Carrying amount**
Bonds denominated in BGN	12,236	(92)	12,144
	12,236	**(92)**	**12,144**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

21. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020	**2019**
Government securities	626,924	567,819
Corporate bonds	22,649	29,148
Total debt instruments	**649,573**	**596,967**
Public companies' shares	50,331	12
Incl. shares of First Investment Bank AD	*50,324*	-
Non-public companies' shares	6,428	2,778
Participation in investment program SIA (Note 37)	950	788
Total equity instruments	**57,709**	**3,578**

Movement in financial assets measured at fair value through other comprehensive income:

Debt instruments	**2020**	**2019**
As of 1 January	**596,967**	**650,374**
Additions (purchases)	152,301	219,684
Disposals (sale and/or maturity)	(107,776)	(278,822)
Net increase/(decrease) due to revaluation of securities at fair value through OCI	8,081	5,731
As of 31 December	**649,573**	**596,967**

Equity instruments	**2020**	**2019**
As of 1 January	**3,578**	3,283
Additions (purchases)	140,640	241
Net increase/(decrease) due to revaluation of securities at fair value through OCI	(86,509)	54
As of 31 December	**57,709**	**3,578**

Debt instruments

Financial assets measured at fair value through other comprehensive income – debt instruments comprise mainly government securities with the issuer being the Republic of Bulgaria or other European countries, and corporate bonds.

21. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

Equity instruments

Financial assets measured at fair value through other comprehensive income – equity instruments, consist of the following securities:

First Investment Bank AD

Bulgarian Development Bank EAD participated in the first initial public offering of shares from the capital increase of First Investment Bank AD (FIB) pursuant to decisions of the Management and Supervisory Board of the Bulgarian Development Bank of 23 April 2020 and 7 May 2020. The acquisition was performed after the approval from the Bulgarian National Bank was received on 21 May 2020 and in accordance with the protocol-decision of the Council of Ministers of 12 June 2020.

The issue of shares acquired by the Bulgarian Development Bank EAD of the capital of First Investment Bank AD, ISIN BG1100106050, amounts to 27,350,000 shares, representing 18.35% of the capital of First Investment Bank AD, with a single nominal value of BGN 1. As was the case with the other participants in the initial public offering, BDB acquired the shares at their issue value of BGN 5.00. The shares are subscribed on 2 July 2020.

The Bank has elected to classify this investment as financial asset measured at fair value through other comprehensive income, since the investment is long-term and strategic, it is not held for trading, and it is not a contingent consideration recognised in accordance with IFRS 3.

As of 31 December 2020, the Bank has assessed its participation in the capital of FIB according to the closing price received by the Bulgarian Stock Exchange (BSE) for shares of FIB on the last working day of the month of December 2020: BGN 1.8400 per share. The reported negative revaluation amounts to BGN 86,504 thousand compared to the acquisition price.

The management of BDB believes that the use of such valuation complies with the requirements of the applicable IFRS reporting framework and is in compliance, more specifically, with the requirements of IFRS 13 Fair Value Measurement. It should be noted that the traded volumes on the FIB position on the BSE are considerably smaller, both compared to the total number of shares of the bank (149,084,800 shares), and to the package held by the BDB (27,350,000 number of shares or 18.35% of the share capital). On the BSE for the entire 2020, 3,484,719 shares have been traded or 2.34% of the share capital, and within a one-year period 01.09.2020 – 31.08.2021, 2,182,535 shares have been traded or 1.46% of the share capital. In a significant part of the working days of 2020 (108 working days for BSE) either trading of shares of FIB has not been carried out or such a trading was at a volume below 3,000 shares. In accordance with the separate financial statements certified by the auditors of FIB for 2020:

- The net profit of 1 share for 2020 is BGN 0.26, and the annual rate of return on the price used in the financial statements by the BSE is 14.7%.
- The equity of FIB amounts to BGN 1,177,749 thousand, and the accounting value of 1 share, with 149,084,800 subscribed and paid shares is BGN 7.90.
- The Bank has fulfilled the requirements set by the regulatory bodies for improving its capital position and as of 31.12.2020 the total capital adequacy of FIB is 21.78%, approximating the average level for the Bulgarian banking system of 22.10%.

21. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

Equity instruments (continued)

Non-public companies' shares

Three Seas Initiative
By Decision No 613 of 2 September 2020, the Council of Ministers of the Republic of Bulgaria approved the participation of BDB in the Investment Fund of the "Three Seas" Initiative. The participation of BDB is related to a contribution of EUR 20 million in the capital of a specially created company. The Three Seas Initiative has an objective to strengthen investments, relations and cooperation – political and financial, between the member states in the region. This is a public-private financial instrument whose purpose is to complement the financing from the European Union's structural and other funds.
As of 31 December 2020, BDB has transferred EUR 7,014 thousand (BGN 13,717 thousand) to cover its participation in the investments in the Three Seas Fund up to this stage. Since the certificate for purchased shares has been received after the date of the financial statements, as of 31 December 2020, the amount has been reported in "Prepayments and advances" (Note 27), whereas the commitment for contribution in equity, which is not yet due is reported in Note 37 Contingencies and Commitments.

The Fund manager periodically reports the net value of the assets for this instrument and the Bank revalues its participation according to it.

Other non-public companies' shares
The non-public companies' shares held by the Bank include shares of the European Investment Fund (EIF) amounting to BGN 2,594 thousand. The portion of the nominal value of the acquired shares of EIF, which has not been paid, is due after a decision is taken by the General Meeting of Shareholders of EIF.

The remaining portion of the non-public companies' shares amounting to BGN 184 thousand represent shares of the company licensed as a payment system operator under the Bulgarian law – BORICA AD. Only banks can be shareholders of this company and they acquire shares following a specific procedure; the share price is determined using a formula specified in the company's Statute.

The shares of FIB, Three Seas Fund and other non-public companies held by the Bank are reported at fair value through other comprehensive income and the Bank considers that the conditions in paragraph 5.7.5 of IFRS 9 have been met, as these shares are neither held for trading nor represent a contingent consideration, recognized by the buyer in a business combination, for which IFRS 3 is applied.

The revaluation reserve formed on financial assets measured at fair value through other comprehensive income is presented in Note 36:

All amounts are in thousand Bulgarian Levs, unless otherwise stated

22. NET INVESTMENT IN FINANCE LEASES

The net investment in finance lease is the difference between the gross investment in the finance lease, less any unearned finance income, and the accumulated impairment losses.

	2020	2019
Gross investment in finance leases	44,380	12,362
Unearned finance income	(3,998)	(2,035)
Net minimum lease payments	**40,382**	**10,327**
Impairment loss	(771)	(592)
Net investment in finance lease	**39,611**	**9,735**

Disclosure required by IFRS 16

During the year the receivables under finance lease contracts increased due to the conclusion of new lease contracts. As of 31 December 2020, a total of 126 lease contracts have been signed, 116 of which are in active portfolio (2019: 88 contracts, 85 in active portfolio).

The Group has entered into finance lease contracts as a lessor for specific equipment. The average term of a finance lease is 10 years for equipment and 3-8 years for other assets. In general, these leases do not include options for extension or early termination.

The Group is not exposed to currency risk as a result of lease arrangements, as all leases are denominated in EUR or BGN. The residual value risk for rental equipment is insignificant due to the existence of a secondary market for the equipment.

Allocation of net finance lease investment:

	2020	2019
Repayment not later than one year	6,736	796
Repayment later than one year and no later than two years	7,081	1,201
Repayment later than two years and no later than three years	6,082	1,127
Repayment later than three years and no later than four years	4,557	1,101
Repayment later than four years and no later than five years	4,361	1,122
Repayment after five years	11,565	4,980
Net minimum lease payments	**40,382**	**10,327**
Impairment loss	(771)	(592)
Net investment in finance lease	**39,611**	**9,735**

The accrued and not yet matured interest as at the date of the financial statements amount to BGN 31 thousand (2019: BGN 41 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

22. NET INVESTMENT IN FINANCE LEASES (CONTINUED)

Movement in the allowance for impairment:

	2020	2019
Balance as of 1 January	**(592)**	**(486)**
Impairment over the year:		
Charge for the year	(257)	(120)
Reversed for the year	10	14
Written off	68	-
Balance as of 31 December	**(771)**	**(592)**

23. RIGHT-OF-USE ASSETS

Right-of-use assets are related to rent agreements recognized according to IFRS 16 Lease.

	Properties	Total as of 31 December 2020
Cost	172	172
Accumulated depreciation	(64)	(64)
Net book value	**108**	**108**

	Properties	Total as of 31 December 2019
Cost	184	184
Accumulated depreciation	(16)	(16)
Net book value	**168**	**168**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

24. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

	Land and buildings	Bank equipment and computers	Fixtures and fittings	Motor vehicles	Licences and software	Total
Cost						
As of 1 January 2019	**38,243**	**2,149**	**724**	**1,138**	**1,651**	**43,905**
Additions	-	976	7	-	4,606	**5,589**
Disposals	-	(18)	-	(28)	(126)	**(172)**
As of 31 December 2019	**38,243**	**3,107**	**731**	**1,110**	**6,131**	**49,322**
Additions	22,338	784	86	587	4,520	**28,315**
Disposals	-	(51)	(4)	(358)	-	**(413)**
As of 31 December 2020	**60,581**	**3,840**	**813**	**1,339**	**10,651**	**77,224**
Accumulated depreciation/amortization						
As of 1 January 2019	**2,628**	**1,396**	**316**	**380**	**1,140**	**5,860**
Charge for the year	743	359	82	205	249	1,638
Written off	-	(18)	-	(22)	(126)	(166)
Impairment on consolidated basis	495	-	11	-	-	506
As of 31 December 2019	3,866	1,737	409	563	1,263	7,838
Charge for the year	775	536	87	194	1,128	2,720
Written off	-	(51)	(4)	(283)	-	(338)
Impairment on consolidated basis	358	-	1	-	-	359
As of 31 December 2020	**4,999**	**2,222**	**493**	**474**	**2,391**	**10,579**
Net book value						
At 31 December 2018	**35,615**	**753**	**408**	**758**	**511**	**38,045**
At 31 December 2019	**34,377**	**1,370**	**322**	**547**	**4,868**	**41,484**
At 31 December 2020	**55,582**	**1,618**	**320**	**865**	**8,260**	**66,645**

The fully depreciated/amortized property, plant and equipment still in use at 31 December 2020 amount to BGN 1,004 thousand at cost (2019: BGN 1,179 thousand) and intangible assets amount to BGN 743 thousand (2019: BGN 743 thousand), respectively.

25. INVESTMENT PROPERTY

	2020	2019
Carrying amount at the beginning of period	7,484	7,201
Sold	-	299
Profit/(Loss) on change in the fair value included in profit and loss for the period	124	(16)
	7,608	**7,484**

The Group holds investment properties as a result of collateral acquired on problem loans. They are leased to third parties. Rental income generated for 2020 amounts to BGN 671 thousand (2019: BGN 539 thousand) (Note 10). The fair value at 31 December 2020 has been determined by an independent certified appraiser.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

25. INVESTMENT PROPERTY (CONTINUED)

The Group classifies its investment property in Level 3 of the fair value hierarchy. The fair value has been determined on the basis of the valuation calculated by independent certified appraisers by employing valuation techniques and key inputs for the valuation of the investment property disclosed in Note 5.

26. ASSETS HELD FOR SALE

Land, buildings and fixtures and fittings amounting to BGN 608 thousand (2019: BGN 57 thousand – land and buildings) were acquired by the Group in 2020 against payment of liabilities under problem loans of borrowers. The assets have not been used and it is not planned to be used in the Group's activity.

The movement of assets held for sale in 2020 and 2019 is presented in the following table:

	2020	2019
Carrying amount at the beginning of period	**51**	**5,012**
Acquired from collateral foreclosure	608	57
Sold	-	-
Assets of Cohoferm OOD controlled by BDB	2,571	-
Reclassified to other assets	-	(5,014)
Impairment	(20)	(4)
Carrying amount at the end of the period	**3,210**	**51**

In 2020 due to non-performance of a loan agreement the Group acquired control over a company for fish goods production and as a result the company is in the consolidation scope. The company's assets are classified as held for sale according to IFRS 5 and its assets are presented in the Group's statement of financial position at fair value, respectively. The company's liabilities are recognized as Liabilities Related to Assets Held for Sale and are reported in Other liabilities (Note 34). The total amount of reclassified assets is BGN 3,599 thousand and their fair value is BGN 2,571 thousand.

27. OTHER ASSETS AND ASSETS ACQUIRED FROM COLLATERAL FORECLOSURE

	2020	2019
Assets acquired from collateral foreclosure	33,938	35,187
Prepayments and advances	18,848	3,215
Receivables	1,470	913
Income tax overpaid	1,116	880
Assets in process of delivery	873	3,624
VAT refundable	138	607
Other	118	23
	56,501	**44,449**

27. OTHER ASSETS AND ASSETS ACQUIRED FROM COLLATERAL FORECLOSURE (CONTINUED)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Assets acquired from collateral foreclosure include assets acquired by the Group as a result of non-performing loans. These assets are measured at the lower of cost and net realisable value. The net realisable value is determined based on evaluations made by licensed independent valuers; management considers these evaluations reasonable and adequate for the Group.

As of 31 December 2020, BDB has transferred EUR 7,014 thousand (BGN 13,717 thousand) to cover the portion of its participation in the Three Seas Investment Fund, which at this stage according to the agreement of the shareholders in the Fund, was due. As the certificate for purchase of shares was received after the date of the financial statements, as of 31 December 2020 the amount is recorded as “Prepayments and advances”, whereas the commitment for contribution in equity, which is not yet due is reported in Note 37 Contingencies and Commitments.

Prepayments and advances also include the unamortised portion of the fee for the anti-COVID guarantees see Note 37), amounting to BGN 1,074 thousand. The movement in Assets acquired from collateral foreclosure in 2020 and 2019 is presented in the following table:

	2020	**2019**
Carrying amount at the beginning of period	35,187	27,128
Reclassified to receivables from non-financial institutions	(906)	-
Reclassified from held for sale	-	5,014
Capitalised costs	2,938	3,113
Impairment	(3,281)	(68)
Carrying amount at the end of the period	**33,938**	**35,187**

28. DEPOSITS FROM CREDIT INSTITUTIONS

	2020	**2019**
Deposits from local banks	7,508	6,513
Deposits from foreign banks	668	1,364
	8,176	**7,877**

There is no interest payable on deposits from credit institutions as at 31 December 2020 and 2019. All deposits from credit institutions are demand deposits.

29. DEPOSITS FROM CUSTOMERS OTHER THAN CREDIT INSTITUTIONS

	2020	**2019**
Companies and sole traders	973,064	988,306
Individuals	7,427	5,064
	980,491	**993,370**

The amounts due to individuals represent deposits of employees of the Group.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

29. DEPOSITS FROM CUSTOMERS OTHER THAN CREDIT INSTITUTIONS (CONTINUED)

Interest payable on deposits from other customers, other than credit institutions, at 31 December 2020 amounts to BGN 27 thousand (2019: BGN 595 thousand).

	2020	**2019**
Term deposits	315,777	592,730
Demand deposits	664,714	400,640
	980,491	**993,370**

30A. FUNDING ACTIVITY

Funding activity forms the following cash flows and non-cash changes in 2020 and 2019.

	01.01.2020		**Non-cash changes**		**31.12.2020**
		Cash flow	**Changes in accrued interests and prepaid commissions**	**Transition from long-term to short-term**	
Long-term loans (Notes 30 and 31)	1,200,519	123,051	349	(129,613)	1,194,306
Short-term loans (Notes 30 and 31)	120,737	(120,388)	(349)	129,613	129,613
Lease liabilities	448	(105)	(64)	-	279
Total liabilities from funding activity	**1,321,704**	**2,558**	**(64)**	**-**	**1,324,198**

	01.01.2019		**Non-cash changes**		**31.12.2019**
		Cash flow	**Changes in accrued interests and prepaid commissions**	**Transition from long-term to short-term**	
Long-term loans (Notes 30 and 31)	896,735	424,469	52	(120,737)	1,200,519
Short-term loans (Notes 30 and 31)	118,304	(118,304)	-	120,737	120,737
Lease liabilities	561	(51)	(62)	-	448
Total liabilities from funding activity	**1,015,600**	**306,114**	**(10)**	**-**	**1,321,704**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS

	2020	**2019**
China Development Bank	732,061	741,321
Industrial and Commercial Bank of China	146,637	-
Long-term framework loan agreement with the Council of Europe Development Bank	144,750	209,176
The Export – Import Bank of China	98,355	98,324
Long-term loans from the Kreditanstalt für Wiederaufbau	71,356	112,793
Long-term loans from the European Investment Bank	42,946	42,949
Long-term loans from the Nordic Investment bank	2,799	7,374
	1,238,904	**1,211,937**

The interest payables on the borrowings from international institutions as of 31 December 2020 amount to BGN 1,469 thousand (2019: BGN 1,150 thousand).

The effective interest rates on borrowings from international institutions as of 31 December 2020 range from 0% to 1.70 % (31.12.2019: from 0% to 1.75%).

Council of Europe Development Bank

On 18 November 2009, a new loan agreement was signed between Bulgarian Development Bank AD and the Council of Europe Development Bank for EUR 15,000 thousand. The purpose of the loan is to finance investment projects of micro-, small and medium-sized enterprises from the real sector with the aim to create new and to preserve already existing jobs. The loan is unsecured.

As of 31 December 2020, the loan is fully repaid (31.12.2019: EUR 937.5 thousand equivalent to BGN 1,834 thousand).

On 30 March 2011, a new loan agreement was signed between Bulgarian Development Bank EAD and the Council of Europe Development Bank for EUR 20,000 thousand. The purpose of the loan is to improve the access to financing of the Bulgarian small and medium-sized enterprises, to create new jobs, and to preserve already existing ones. The loan is unsecured.

As of 31 December 2020, the loan is fully utilised and the outstanding principal under the loan amounts to EUR 5,000 thousand equivalent to BGN 9,779 thousand (31.12.2019: EUR 7,000 thousand equivalent to BGN 13,691 thousand).

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

Council of Europe Development Bank (continued)

The interest rate on the first tranche is floating, based on the 3 M EURIBOR plus margin, and the interest rate on the second tranche is fixed.

On 23 February 2016, Bulgarian Development Bank EAD signed a Loan agreement with the Council of Europe Development Bank (CEDB) amounting to EUR 150,000 thousand. The funds are intended to finance energy efficiency and retrofitting measures under Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP). The loan has a special purpose and will be used for renovation of multi-family buildings. As of 31 December 2020, the loan was fully utilised.

The loan is secured by a State guarantee under the State Budget of the Republic of Bulgaria Act for 2016. A Guarantee Agreement was signed between the CEDB and the Republic of Bulgaria, represented by the Minister of Finance, which was ratified by the National Assembly. The Guarantee Agreement Ratification Act was promulgated in State Gazette on 3 May 2016.

The Energy Efficiency of Multi-Family Buildings National Programme was approved by virtue of decision of the Council of Ministers of 27 January 2015.

As of 31 December 2020, the loan payable amounts to EUR 69,000 thousand equivalent to BGN 134,952 thousand (as of 31.12.2019: EUR 99,000 thousand equivalent to BGN 193,627 thousand). The interest rate on the first tranche of the loan is floating, based on 3M EURIBOR plus a margin, and on the second tranche it is fixed.

Kreditanstalt für Wiederaufbau (KfW)

On 27 July 2010, Bulgarian Development Bank EAD signed a direct loan agreement for EUR 25,000 thousand with the German Development Bank Kreditanstalt für Wiederaufbau (KfW). The purpose of the loan is direct lending to small and medium sized enterprises and/or for providing credit lines to commercial banks for special-purpose business financing. The loan is unsecured. At 31 December 2020, the loan was fully repaid (31.12.2019: EUR 2,941 thousand equivalent to BGN 5,752 thousand).

On 16 August 2016, Bulgarian Development Bank EAD signed an Agreement with KfW for EUR 100,000 thousand. The funds are intended to finance energy efficiency and retrofitting measures, implemented by SMEs in Bulgaria under the Energy Efficiency of Multi-Family Residential Buildings National Programme. The loan is secured by a State guarantee under the State Budget of the Republic of Bulgaria Act for 2016. A Guarantee Agreement was signed between KfW and the Republic of Bulgaria, represented by the Minister of Finance, which was ratified by the National Assembly. The Guarantee Agreement Ratification Act was promulgated in State Gazette on 30 December 2016. As of 31 December 2020, the loan was fully utilised.

As of 31 December 2020, the outstanding principal under the facility amounted EUR 36,364 thousand equivalent to BGN 71,121 thousand (as of 31.12.2019 the outstanding principal amounted to EUR 54,545 thousand equivalent to BGN 106,682 thousand). The interest rate is floating, based on the 6M EURIBOR plus margin.

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

European Investment Bank

On 18 November 2016, BDB signed a third contract with European Investment Bank for the amount of EUR 150,000 thousand for financing of projects of small and medium-sized enterprises. The funds are provided with the support of the EU and are backed by an EFSI (European Fund for Strategic Investment) guarantee, part of the Investment Plan for Europe – the Juncker Plan. The funds are intended to finance SMEs, including innovative projects, to support regions with high unemployment rates, as well as youth employment or start-up company projects. The loan can be allocated through partner banks, other financial intermediaries or directly. The loan is unsecured.
As of 31 December 2020, the outstanding principal under the loan amounted to EUR 21,955 thousand equivalent to BGN 42,941 thousand (as of 31.12.2019: EUR 21,955 thousand equivalent to BGN 42,941 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

Nordic Investment Bank

On 15 December 2010, a second credit line was signed between the Nordic Investment Bank and Bulgarian Development Bank EAD for EUR 20,000 thousand. The purpose of the loan is financing of renewable energy projects or environmental projects; projects involving the Nordic Investment Bank member states, as well as indirect financing through commercial partner banks. The loan is unsecured. As of 31 December 2020, the loan was fully utilised.

As of 31 December 2020, the outstanding principal under the facility amounted to EUR 1,430 thousand equivalent to BGN 2,797 thousand (31.12.2019: EUR 3,783 thousand equivalent to BGN 7,399 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

China Development Bank

On 12 May 2017, BDB signed a loan agreement with China Development Bank for the amount of EUR 80,000 thousand. The purpose of the loan is financing the general lending activity of BDB – investment and working capital loans. BDB could also use the funds to support strategic projects within the Belt & Road initiative. The loan is unsecured. As of 31 December 2020, the loan was fully utilised.

As of 31 December 2020, the outstanding principal under the loan amounted to EUR 78,000 thousand equivalent to BGN 152,555 thousand (as of 31.12.2019: EUR 79,000 thousand equivalent to BGN 154,511 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

On 13 December 2018, BDB signed a new financing agreement with the China Development Bank amounting to EUR 300,000 thousand. The funds were granted as a first tranche under the framework agreement signed in July 2018 for EUR 1.5 billion. The funds may be used to finance projects within the Belt & Road initiative and/or projects in support of SMEs, energy, communications, transport, agriculture in Bulgaria or for other purposes agreed by BDB and CDB. The loan is unsecured. As of 31 December 2020, the loan is fully utilised.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

China Development Bank (continued)

As of 31 December 2020, the outstanding principal on the loan amounts to EUR 296,250 thousand equivalent to BGN 579,415 thousand (as of 31.12.2019: EUR 300,000 thousand equivalent to BGN 586,749 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

The Export – Import Bank of China

On 28 September 2017, BDB signed an agreement with the Export – Import Bank of China for the amount of EUR 50,000 thousand. This was the first loan agreement between BDB and the Export – import Bank of China, following the financial cooperation agreement, signed in 2014 between the two institutions and setting their interest in joint financing of key projects or areas. The funds can be used to finance the overall lending activity of BBD, a short-term and mid-term trade financing, trans-border economic and commercial transactions between China and Bulgaria. The loan is unsecured. As of 31 December 2020, the loan is fully utilised.

As of the 31.12.2020 the outstanding principal on the loan amounts to EUR 50,000 thousand equivalent to BGN 97,792 thousand (31.12.2019: EUR 50,000 thousand equivalent to BGN 97,792 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

Industrial and Commercial Bank of China (through its divisions in Austria and Poland)

On 13 March 2020 BDB signed a new financial agreement with the Industrial and Commercial Bank of China (ICBC) amounting to EUR 75,000 thousand. The funds are intended for general lending activities of BDB, direct financing as well as on-lending through Bulgarian financial institutions in support of investment projects and providing working capital. The financing is jointly provided by ICBC Austria and ICBC Europe - Poland. The loan is unsecured. As of 31 December 2020, the loan is fully utilised.

As of 31 December 2020, the debt on the loan amounts to EUR 75,000 thousand equivalent to BGN 146,687 thousand (31.12.2019: no amounts utilised). The interest rate is floating, based on the 6M EURIBOR plus a margin.

31. OTHER BORROWINGS

	2020	**2019**
Loan financing from the Ministry of Finance with funds from KfW	11,237	11,236
KfW funds provided by the Ministry of Finance for trust management	5,695	5,883
Special-purpose deposits	68,077	92,232
	85,009	**109,351**

There are no interest liabilities accrued on other borrowings as of 31 December 2020 (2019: nil).

Loan financing from the Ministry of Finance with funds from KfW

On 18 April 2007, the Bank concluded a loan agreement with the Government of the Republic of Bulgaria, represented by the Minister of Finance. This agreement is based on the Treaty between Bulgaria and Germany for financial collaboration from 2001 and an Agreement between the Republic of Bulgaria and Kreditanstalt für Wiederaufbau (KfW).

31. OTHER BORROWINGS (CONTINUED)

Loan financing from the Ministry of Finance with funds from KfW (continued)

By virtue of this agreement, the amount of EUR 4,929 thousand (BGN 9,640 thousand) is granted to the Bank designated as Project Promoter for the purpose of financing micro, small and medium-sized enterprises. The term of the agreement is 10 years as from the date of transfer of the funds, while the latter along with the due interest shall be repaid bullet at the end of the period. On 28 April 2017, BDB and the Ministry of Finance signed Annex 1 to extend the term of the contract by 10 more years.

As of 31 December 2020, the outstanding principal and the capitalised interest amounted to EUR 5,745 thousand equivalent to BGN 11,236 thousand (as of 31 December 2019: EUR 5,745 thousand equivalent to BGN 11,236 thousand). The loan interest is capitalised quarterly and is based on 3M EURIBOR plus a margin.

As of 31 December 2020, the Bank has extended under this contract loans to commercial banks amounting to EUR 5,745 thousand (31 December 2019: EUR 5,745 thousand equivalent to BGN 11,236 thousand). This amount is included in the summarised table of the receivables from financial institutions, presented in Note 17.

KfW funds provided by the Ministry of Finance for trust management

The Bank has concluded an agreement with the Ministry of Finance (MF) for management of funds granted by Kreditanstalt fur Wiederaufbau (KfW) pursuant to an agreement between the Governments of Bulgaria and Germany. These funds are provided for financing of small and medium-sized enterprises. The Ministry of Finance bears the risk under the loans to partner-banks. The Bank selects the partner-banks and transfers the funds to those approved; gathers information and performs periodic reviews of the funds' utilisation, monitors the timely interest and principal payments to the special account of the Ministry of Finance.

As of 31 December 2020, the outstanding principal of the funds under trust management with the Bank amounts to EUR 2,912 thousand equivalent to BGN 5,695 thousand (31 December 2019: EUR 3,008 thousand equivalent to BGN 5,883 thousand).

The Bank receives a management fee and accrues interest on the special account on a quarterly basis.

Long-term agreement with the Executive Agency on Fisheries and Aquaculture

On 7 December 2010, a financing agreement for provision of funds for the issuance of guarantees under the Operational programme for development of fisheries sector 2007-2013 (OPFSD) was signed between the National Guarantee Fund (NGF) and the Executive Agency on Fisheries and Aquaculture (NAFA, the Agency) of the Ministry of Agriculture and Food of the Republic of Bulgaria. The aim of the program is to provide easier access to financing by the sector, with lower interest rates, lower collateral requirements and lower own financing.

The guarantee program is fulfilled within the Measure 2.7 of the Rural Development (RDP) Programme. Following consultations, the Executive Agency on Fisheries and Aquaculture (NAFA) and NGF EAD have chosen the financial engineering instrument, provided for under Commission Regulation (EC) No.498/2007 (OB, 10.05.2007, L 120) laying down detailed rules for the implementation of Council Regulation (EC) No.1198/2006, to be realised through a fund (accounts) in an account and under the governance of NGF. In accordance with Commission Regulation (EC) No.498/2007 (Article 35), the financial engineering instrument is established in the form of a separate financial pool within NGF EAD.

31. OTHER BORROWINGS (CONTINUED)

Long-term agreement with the Executive Agency on Fisheries and Aquaculture (continued)

In 2010, NAFA provided to NGF the amount of BGN 6,000 thousand under Article 1 of the Financing Agreement. On 28 December 2011 pursuant to Annex 2 an additional contribution of BGN 9,168 thousand was made. On 19 December 2012 Annex 4 of the Financing Agreement for provision of funds for the issuance of guarantees under the Operational programme for development of fisheries sector 2007-2013 was signed between NGF and NAFA. Pursuant to Annex 4, NAFA shall transfer to NGF additional contribution amounting to BGN 15,050 thousand for the realisation of the guarantee scheme. In accordance with Annex 5 signed between NGF EAD and NAFA on 16 January 2014, the Agency has withdrawn the last contribution of BGN 15,050 thousand. By Annex No. 7 dated 06 October 2015 between the parties, the Fund refunded to the Agency the amount of BGN 3,000 thousand from the additionally transferred financial resources.

By Annex 8 dated 03 November 2017, the parties expressed their intention to reuse the resources. NAFA assigned NGF EAD with the task to carry out Guarantee activity in favour of micro-, small-, and medium-sized enterprises operating in the Fisheries sector in accordance with article 34, paragraph 4 of Regulation (EC) 498/2007.

By Annex 9 dated 19 June 2018, the parties agreed that the funds provided under the Agreement would be reused by the National Guarantee Fund in activities aiming to facilitate the access to financing of Fisheries sector enterprises and enterprises approved to receive grant under the Maritime and Fisheries Programme 2014 -2020. The funds have been granted to finance Guarantee activities for a ten-year term.

In 2015, aiming at achieving a better yield, the program funds were invested in a current account bearing a preference interest rate with Bulgarian Development Bank EAD. In 2016, the funds were deposited in a two-year deposit with the same bank. In 2017, the despot agreement was annexed for three more years.

The guarantee program is free of charge for businesses that benefit from it, while the cost for NGF EAD for its realisation are determined and paid under Article 35 of Commission Regulation (EC) No.498/2007.

As of 31 December 2020, within the OPRDP, NGF EAD has signed agreements with the following banks: Raiffeisenbank (Bulgaria) EAD, First Investment Bank AD, UBB EAD, UniCredit Bulbank AD, Central Cooperative Bank AD, DSK Bank EAD, TBI Bank EAD, International Asset Bank AD, Bulgarian American Credit Bank AD, and Bulgarian Development Bank EAD, Municipal Bank AD.

The term for inclusion of new loans and bank guarantees (which are scheduled within the Program) matures on 31 December 2022.

31. OTHER BORROWINGS (CONTINUED)

Long-term agreement with the Ministry of Agriculture and Food

On 20 December 2011, the National Guarantee Fund EAD and the Ministry of Agriculture and Food (MAF) signed a financial agreement to provide funds for the implementation of guarantees on guarantee schemes under the Rural Development Programme 2007 – 2013 (DP).

The Guarantee Scheme was established on the grounds of Articles 51 – 52 of Commission Regulation (EC) No. 1974/2006 dated 15 December 2006 laying down detailed rules for the implementation of Council Regulation (EC) No. 1698/2005 dated 20 September 2005 regarding the support for rural development under EAFRD to facilitate access to financing of beneficiaries and the realisation of the projects under OPRDP.

MAF provides funding to NGF in BGN amount equivalent to EUR 121,100 thousand (BGN 236,851 thousand), in order to enhance the access to financing, support competitiveness, accelerate the completion of investments, which will be co-finance with funds under the Rural Development Programme (2007-2013) and which are used by the Fund for the issuance of guarantees and counter-guarantees. By Annex No. 2 dated 14 October 2015 signed between the parties, the Fund refunded to the Ministry the amount of BGN 154,586 thousand from the financial resources provided. By Annex No. 3 dated 01 December 2015, signed between the parties, the term of the Agreement was extended until 01 April 2016.

Pursuant to Annex No. 4 dated 29 March 2016 the parties declared that the funds provided under the Agreement should be re-used by the Fund for Guarantee Activity with the aim to facilitate access to financing for entities approved for aid under the Rural development programme of the Republic of Bulgaria (2014-2020), as also for entities from Livestock breeding sector and Plant production sector. The funds are provided for carrying out Guarantee activity for a term of ten years.

In 2016 the funds were placed in a two-year deposit with the parent company. In 2017, the deposit agreement was annexed for three more years.

As of 31 December 2017, within the Guarantee Scheme under OPRDP 2007 - 2013, NGF EAD has concluded agreements with the following banks: Bulgarian American Credit Bank AD, DSK Bank EAD, United Bulgarian Bank AD, Piraeus Bank Bulgaria AD, First Investment Bank AD, Raiffeisenbank (Bulgaria) EAD, Cibank EAD, Central Cooperative Bank AD and Eurobank Bulgaria AD, UniCredit Bulbank AD, TBI Bank EAD, and Allianz Bank Bulgaria AD.

In 2017, the Guarantee Scheme 2014 -2020, a joint activity with MAF, was implemented by using funds amounting to BGN 50,000 thousand, released from the Guarantee Scheme under OPRDP 2007 – 2013. New agreements under the Guarantee Scheme was signed with 18 commercial banks: United Bulgarian Bank AD, Texim Bank AD, DSK Bank EAD, Piraeus Bank Bulgaria AD, CiBank EAD, Bulgarian American Credit Bank AD, Municipal Bank AD, Investment Bank AD, Allianz Bank Bulgaria AD, International Asset Bank AD, Eurobank Bulgaria AD, D Commercial Bank AD, TBI Bank EAD, First Investment Bank AD, UniCredit Bulbank AD, Bulgarian Development Bank EAD, Raiffeisenbank (Bulgaria) EAD, and BDB Microfinancing EAD (previously Microfinancing Institution JOBS EAD).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

32. PROVISIONS

	2020	2019
Provisions for anti-COVID credit guarantees	120,308	-
Provisions for bank guarantees and letters of credit	7,060	8,098
Total provisions for guarantees	**127,368**	**8,098**
Litigation provisions	43	117
Provisions for expenses	37	-
	127,448	**8,215**

The following table presents the movement in provisions for guarantees:

	2020	2019
Balance as of 1 January	**8,098**	**7,641**
Accruals for the year – anti-COVID credit guarantees	120,308	-
Accruals for the year – bank guarantees and letters of credit	5,212	2,909
Utilised in the year	358	-
Reversed in the year	(6,608)	(2,452)
Balance as of 31 December	**127,368**	**8,098**

Provisions for anti-COVID credit guarantees represent the expected payments on the guarantees issued by BDB to commercial partner banks under the programme. They are calculated according to a methodology designed in BDB especially for this purpose. The programme is described in Note 37.

Provisions for bank guarantees represent amounts expected to be paid under guarantees issued by the Group. They are determined using established methodology for ECL calculation in accordance with IFRS 9.

Litigation provisions relate to future payments under lawsuits relating to labour disputes.

Provisions for expenses represent probable but uncertain payments that may arise for the Group.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

33. LEASE LIABILITIES

	2020	2019
Finance lease	169	448
Operating lease	110	-
	279	**448**

34. OTHER LIABILITIES

	2020	2019
Accruals for expenses	1,769	1,389
Payables to suppliers and customers	1,729	770
Liabilities related to assets held for sale	1,049	-
Payables to personnel and for social security	984	750
Retirement benefit liabilities	671	552
Tax liabilities	538	518
Charges on debenture loans and portfolio guarantees	167	162
Other creditors	850	542
	7,757	**4,683**

Accruals for expenses represent amounts related to the reporting period that have been or will be invoiced after finalizing the reporting process.

Payables to suppliers and customers represent mainly payables under deliveries of assets that will be leased as well as payables under other Group's operating deliveries.

Liabilities related to assets held for sale represent the net amount of the liabilities Cohoferm OOD controlled by BDB after elimination of the company's liabilities to BDB.

Payables to personnel for salaries and social security contributions comprise accruals on compensated absences and social security contributions due thereon as well as current salaries due.

Tax liabilities represent VAT payables, taxes on employee benefits, corporate tax and withholding tax liabilities.

Charges on debenture loans and portfolio guarantees represent prepaid fees for guarantees.

Employee retirement benefits are due by the Bank to employees reaching retirement age and are stated at their present value.

In accordance with the Labour Code each employee is entitled to indemnity on retirement amounting to two gross monthly salaries, and if he / she has worked for more than 10 years for the parent company – to six gross monthly salaries at the time of retirement. The parent company estimated the amount of these liabilities by using mathematical models and the services of a certified actuary.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. OTHER LIABILITIES (CONTINUED)

Employee retirement benefits (continued)

On the basis of the calculations made, the amount of BGN 671 thousand was included in the consolidated statement of financial position at 31 December 2020 (31 December 2019: BGN 552 thousand).

	2020	2019
Present value of the liability at 1 January	552	400
Current service cost	148	95
Interest expense	4	5
Amounts paid in the period	(13)	-
Actuarial (gains)/losses from changes in demographic and financial assumptions and actual experience	(20)	52
Present value of the liability at 31 December	**671**	**552**

	Amounts on retirement for old age and length of service		Amounts on retirements due to illness		Total	
	2020	2019	2020	2019	2020	2019
Actuarial gain/(loss) at 1 January	(56)	(8)	-	-	(56)	(8)
Actuarial (loss)/ gain recognized in other comprehensive income for the period	14	(48)	-	-	14	(48)
Actuarial (loss)/gain at 31 December	**42**	**(56)**	**-**	**-**	**42**	**(56)**

The following actuarial assumptions are used in calculating the present value of the liabilities as of 31 December 2020:

- mortality rate – in accordance with the table prepared on the basis of statistics issued by the National Statistical Institute for the total mortality rate of the population in Bulgaria for the period 2017 – 2019;
- staff turnover rate – from 1 % to 10 % (2019: 0% to 10%) depending on five age groups formed;
- rate of early retirement due to illness – from 0.027% to 0.3212% (2019: from 0.027% to 0.3212%) depending on five age groups formed;
- effective annual interest rate for discounting – 0.5% (2019 – 0.6%);
- assumptions for the future level of working salaries in the Bank are based on the Group's development plan for 2021 – 5% compared to the 2020 level and for 2022 and subsequent years – 5% compared to the previous year level.

The effect for 2020 of the increase and decrease by 1% of the salary growth and the interest rate on the total amount of current service costs and interest, and on the present value of the liability for payment of defined benefits upon retirement, are as follows:

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. OTHER LIABILITIES (CONTINUED)

Employee retirement benefits (continued)

	Increase by 1% of salary growth	**Decrease by 1% of salary growth**
Change in the interest and current service costs (“+”- increase, “–”- decrease)	18	(15)
Change in the present value of the liability as of 31 December 2020 (“+”- increase, “–”- decrease))	74	(68)

	Increase by 1% of interest rate	**Decrease by 1% of interest rate**
Change in the interest and current service costs (“+”- increase, “–”- decrease)	(8)	10
Change in the present value of the liability as of 31 December 2020 (“+”- increase, “–”- decrease)	(64)	76

	Increase by 1% of staff turnover rate	**Decrease by 1% of staff turnover rate**
Change in the interest and current service costs (“+”- increase, “–”- decrease)	(16)	19
Change in the present value of the liability as of 31 December 2020 (“+”- increase, “–”- decrease)	(68)	80

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. OTHER LIABILITIES (CONTINUED)

Employee retirement benefits (continued)

The effect for 2019 of the increase and decrease by 1 per cent of the salary growth and the interest rate on the total amount of current service costs and interest, and on the present value of the liability for payment of defined benefits upon retirement, are as follows:

	Increase by 1% of salary growth	**Decrease by 1% of salary growth**
Change in the interest and current service costs (“+”- increase, “–”- decrease)	21	(18)
Change in the present value of the liability as of 31 December 2019 (“+”- increase, “–”- decrease)	82	(68)

	Increase by 1% of interest rate	**Decrease by 1% of interest rate**
Change in the interest and current service costs (“+”- increase, “–”- decrease)	(12)	15
Change in the present value of the liability as of 31 December 2019 (“+”- increase, “–”- decrease)	(70)	87

	Increase by 1% of staff turnover rate	**Decrease by 1% of staff turnover rate**
Change in the interest and current service costs (“+”- increase, “–”- decrease)	(19)	24
Change in the present value of the liability as of 31 December 2019 (“+”- increase, “–”- decrease)	(73)	90

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. SHARE CAPITAL

	2020	2019
Ordinary shares issued paid in cash	1,427,964	587,964
Ordinary shares issued – in-kind contribution (land for the building of the bank)	12,200	12,200
Ordinary shares issued - in-kind contribution (the building of the bank)	1,610	1,610
	1,441,774	**601,774**

The capital of the parent company (the Bank) consists of 14,417,735 ordinary registered voting shares with par value of BGN 100 each.

The Bulgarian Development Bank Act provides that not less than 51 per cent of shares forming the Bank's capital should be owned by the State; the shares of the State amounting to not less than 51 per cent of the registered share capital are non-transferable. Also, a specific limit is established with regard to the remaining shareholders, other than the Bulgarian State through the Ministry of Finance. Shareholders may be: the Council of Europe Development Bank, the European Investment Bank, the European Investment Fund as well as other banks for development in EU member states.

	2020	2019
As of 1 January	601,774	601,774
Issued shares	840,000	-
As of 31 December	**1,441,774**	**601,774**

The Bank's shares may not be pledged and the rights thereon may not be subject to transfer deals.

In 2020, by Decision №215 of 27 March 2020 the Council of Ministers took a decision to increase the capital of BDB by BGN 700 million and the funds should be used "for the implementation of measures to support the economy in connection with the epidemic of COVID-19, incl. to issue portfolio guarantees to banks to enable them to provide more flexible terms for business loans for a certain period, under certain conditions and on an individual assessment on a case-by-case basis".

By Decree of the Council of Ministers № 134 of 18 June 2020 changes to the budget of the Ministry of Economy were approved for 2020 and making additional payments regarding the portion of financing of the budget balance at the expense of the central budget, by Decision № 402 of 18 June 2020 the Council of Ministers the Bulgarian State decided to increase its participation in the share capital of Bulgarian Development Bank EAD by making a monetary contribution at the total amount of BGN 140,000,000. For the implementation of these measures an extraordinary General Meeting of the Shareholders of the Bank was held on 6 July 2020 at which a decision was adopted to increase the capital of the Bank by issuing 1,400,000 new registered dematerialized voting shares with a par value of BGN 100 each at the total amount of BGN 140,000,000. Thus, the capital of the Bulgarian Development Bank EAD was increased from BGN 1,301,773,500 to BGN 1,441,773,500.

35. SHARE CAPITAL (CONTINUED)

As of 31 December 2020, 99.99% of the shares of the Bank are owned by the state through the Ministry of Economy (31.12.2019 – 99.99% of the shares of the Bank are owned by the State through the Ministry of Economy). DSK Bank holds 8 shares of the capital of BDB.

On 13 May 2021 the Council of Ministers adopted Decision No 414 to increase the state's shareholding in the capital of "BDB." By this decision the increase in the shareholding of the State in the capital of "Bulgarian Development Bank" EAD by acquiring by donation all shares held by DSK Bank EAD in the capital of "Bulgarian Development Bank" EAD, namely 8 dematerialized shares, each with a nominal value of BGN 100, a total of BGN 800, representing 0.000055 per cent of the capital of "Bulgarian Development Bank" EAD was approved.

On 14 May 2021, a contract was concluded for the donation of 8 dematerialized shares between DSK Bank and the Republic of Bulgaria. The transfer of ownership of the shares is registered with the Central Depository of the Republic of Bulgaria.

On 4 June 2021, the Bulgarian Development Bank was registered in the Commercial Register and the register of non-profit legal entities as a sole – owned commercial company.

36. RESERVES

In accordance with the general provisions of the Commercial Act, the parent company (the Bank) shall allocate to Reserve Fund at least 1/10 of its profit for the year until the reserves reach 10 percent of the share capital as stipulated in the Articles of Association. Pursuant to the Articles of Association of the Bank, the Bank shall set aside to the Reserve Fund at least ½ of its after-tax annual profit until the reserves reach 50 percent of its share capital.

The Reserve Fund may be used by the Group only to cover its current or prior period losses, and not for distribution of dividends, without the authorisation of Bulgarian National Bank.

Moreover, the Credit Institutions Act stipulates that the banks in Bulgaria cannot distribute dividends before accumulating the minimum reserves (mainly the Reserve Fund) required by law or by their Articles of Association, or if the distribution of dividends will result in violation of the regulatory capital adequacy ratios. The requirement under the Bulgarian Development Bank Act is similar.

As of 31 December 2020, the Reserve Fund of the Group amounted to BGN 87,185 thousand. (31 December 2019: BGN 79,229 thousand).

As of 31 December 2020, the Additional Reserves of the Bank amounted to BGN 82,442 thousand (31 December 2019: BGN 77,621 thousand) and were formed as result of distribution of profits of the Group from prior periods, according to decisions of the General Meeting of Shareholders.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

36. RESERVES (CONTINUED)

In 2020, as a consequence of the COVID-19 pandemic and with the objective of establishing additional capital buffers the Bulgarian National Bank issued instructions to all banks in Bulgaria to capitalize the profit from 2019. Following these instructions, the Bank capitalized its entire profit from 2019 and has not paid dividend to its shareholders transferring the profit to legal and additional reserves.

In accordance with the Bulgarian Development Bank Act, each shareholder of the Bank is allowed to waive the right to a dividend and then the dividend amount is transferred to Additional Reserves.

All unrealised gains and losses on fair value revaluation of the financial assets measured at fair value through other comprehensive income held at the end of each reporting period are recognised in equity, in a special component thereof formed by the Group and titled Reserve for financial assets measured at fair value through other comprehensive income. These gains and losses are transferred to current profits and losses upon sale/maturity of the respective securities and/or on permanent impairment.

	2020	**2019**
Revaluation reserve as of 01.01.	16,694	10,909
Impairment	1,118	6,428
Revaluation	(90,781)	-
Tax	9,011	(643)
Revaluation reserve as of 31.12.	**(63,958)**	**16,694**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

37. CONTINGENCIES AND COMMITMENTS

	2020	2019
Contingent liabilities		
Anti-COVID credit guarantees	479,462	-
Bank guarantees and letters of credit	432,369	498,745
Bank guarantees and letters of credit with cash collateral	*(15,102)*	*(16,149)*
Letters of credit, incl. with borrowings - Reported as loan commitment	1,719	-
Guarantee provisions recognized in the statement of financial position (Note 32)	(127,368)	(8,098)
Incl. Anti-COVID credit guarantees provisions	*(120,308)*	-
	771,080	**474,498**
Irrevocable commitments		
Unutilised amount of approved loans	264,318	294,991
Letters of credit with borrowings	(156)	-
Provisions for expenses	(80)	-
Unpaid portion of shares in Three Seas Initiative	25,399	-
Unclaimed portion of par value of EIF shares	4,694	4,694
Participation in the SIA investment program	1,006	1,168
	295,181	**300,853**
	1,066,261	**775,351**

BULGARIAN DEVELOPMENT BANK EAD

Anti-COVID guarantees

In 2020 BDB received mandate from the government to ensure programmes for mitigation of the consequences of the COVID-19 pandemic. In this relation BDB created programmes for credit guarantees to partner banks to provide loans with more flexible terms to individuals and legal entities affected by the pandemic. They were secured with an increase in the Bank's capital of BGN 700 million (see Note 35) and included the following measures:

Measures for individuals and households

By Decision No 257 of 14 April 2020, the Council of Ministers approved the Interest-free loan guarantee program to protect people deprived of the opportunity to work due to the COVID-19 pandemic, with a budget of BGN 200 million, proposed by the BDB. The program will be secured with the increase of the Bank's capital according to Decision No 215 of the Council of Ministers from 2020.

The Interest-free loan guarantee program aims to support individuals on unpaid leave and self-insured who are temporarily unable to work in an emergency state.

The program parameters were further amended in order to increase the benefits for individuals affected by the pandemic by Decision 910/10.12.2020 of the Council of Ministers. They have the opportunity to receive interest-free loans of up to BGN 6,900, which are granted at once or in instalments. The maximum repayment period is 5 years, with a minimum of 6 months and a maximum of 24 months grace period. No fees, commissions or charges are payable on the loans.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK EAD (CONTINUED)

Anti-COVID guarantees (continued)

Measures for individuals and households (continued)
As of 31 December 2020, the total approved limit under the programme is BGN 179,860 thousand, portfolio guarantees amounting to BGN 177,162 thousand were issued to commercial banks and 25,448 loans to individuals were approved in the total amount of BGN 106,425 thousand.

Measures for companies
By Decision No 310 of 7 May 2020, the Council of Ministers approved the Portfolio Guarantee Programme to support the liquidity of enterprises affected by the emergency state and the COVID-19 epidemic proposed by BDB, with a budget of BGN 500 million. The program will be secured with the increase of the Bank's capital according to Decision No 215 of the Council of Ministers from 2020.
The guarantee program, which is part of the government's anti-crisis measures, has a budget of up to BGN 500 million. It can include enterprises from all sectors, and the measure is expected to benefit mainly companies from the most affected areas – trade, services, transport and logistics, tourism, hospitality and restaurant business, etc.
In order to apply for loans, it is sufficient for the companies to meet one of the following conditions:

- To be micro, small and medium-sized enterprises, as determined in the manner specified in the Law on small and medium-sized enterprises or large enterprises-commercial companies, whose indicators for personnel and assets and/or turnover exceed the indicators specified in the Law on small and medium-sized enterprises;
- That the enterprises were not in a difficult situation as of 31.12.2019, which is established by checking pre-set, normative criteria. Recent changes to the programme introduce a relief from the "Temporary Framework for State Aid" for micro and small enterprises. It is sufficient for them not to have been the subject of insolvency proceedings, under national law and have not received rescue or restructuring aid (meaning rescue or restructuring aid). In addition, if the BDB guarantee includes existing loans, they must not have been non-performing, and the borrower must not be overdue for more than 90 days - in 2019. For existing loans, the borrower must have submitted to the commercial bank -partner forecast estimates and forecast plan for resumption of its activities, which does not require a strictly defined form and details;

Funding and guarantee can be used by companies that have encountered difficulties or have fallen into difficulty after 31.12.2019 due to the outbreak of the COVID-19 epidemic. The difficulty is identified by the borrower himself, and it is sufficient to describe one of the following reasons that led to his difficulties:

- Decrease in turnover after the first quarter of 2020 compared to the same period in 2019 (based on financial statements or documents of the company);

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK EAD (CONTINUED)

Anti-COVID guarantees (continued)

Measures for companies (continued)

- Existence of receivables from customers, that have not been received/amounts not paid to suppliers after 01.03.2020 (based on financial statements and documentation of the company);
- Terminated import deliveries necessary for the activities of the enterprise – after 01.01.2020, cancelled export contracts (based on documents submitted by the company);
- Cases of illness and self-isolation of employees, total reduction of the number of employees, closed production facilities, premises and offices (based on documents submitted by the company);
- Existence of other circumstances, establishing the difficulties experienced by enterprises due to COVID-19, according to methodology adopted by the commercial banks, which is provided to BDB.

Because the funding covered by the guarantee under the programme is state aid:

- Borrowers are prohibited from financing one and the same expenditure with a loan under the programme and other state/minimum aid. (The same expense means, for example, payment on a specific invoice from 30.11.2020 or payment of rent for a specific office for the month of December 2020, or payment of salaries of specific employees for a specific month.) If the client uses state/minimum (de minimis) aid for these specific expenses, the client cannot use the loan to cover the same costs (prohibition of double financing).
- The borrower must not have infringed the State aid rules and be entered in the specially created “Degendorf Register” https://stateaid.minfin.bg/bg/page/483;
- If the borrower or a related person has benefited from/uses other state /minimum aid for the same type of expenses, as the expenses that he or she wants to be financed by the loan under the programme (e.g., total costs for salaries, total rental costs, total costs for maintenance of facilities), he or she is obliged to declare this to the commercial bank by a declaration according to a model of the programme and should not to allow double financing as mentioned above.

New loans, as well as existing loans, may be included in the programme managed by the Bulgarian Development Bank, but provided that the company is experiencing difficulties in servicing the loans after 31.12.2019 and has no overdue payments over 90 days during the last year. The loans which the commercial banks will grant have a maximum amount of BGN 300,000 and the BDB will cover up to 80% of the loans. The banks themselves will determine the minimum and maximum repayment period and the grace period for newly granted loans will be up to three years.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK EAD (CONTINUED)

Anti-COVID guarantees (continued)

During the last quarter of 2020 the Programme was renewed by Decision of the Council of Ministers 979/2020, as follows:

- The loans granted now have an amount up to BGN 1 million for small and medium-sized enterprises and up to BGN 2 million for large enterprises;
- The term of inclusion of loans in the Guarantee portfolio has been extended until 30.06.2021 (as of the date of preparation of these financial statements, the term has been extended until 31.12.2021);
- The deadline for application under the measure for micro, small and medium-sized enterprises is 23.06.2021 (as of the date of preparation of these financial statements, the current term is 21.12.2021).
- The percentage of collateral for the loans has changed from 20% to up 50%, according to the amount of financing;
- A reduction of at least 80 basis points on loan interest rates is required;
- The term of the guarantee provided by BDB has be extended from 5 to 6 years;
- The guarantee coverage will cover investment loans granted by the banks;
- The limit of the guarantee payments by the BDB AD has been extended from 30% to 50%.

At the end of December 2020, the total approved limit under the programme amounts to BGN 743,000 thousand, portfolio guarantees with a limit of BGN 302,300 thousand have been issued and 1,282 loans at the total amount of BGN 157,127 thousand have been approved.

SIA

On 17 July 2015, Bulgarian Development Bank AD signed a funds management contract with EIF for accession to the SIA (Social Impact Accelerator) investment program of EIF for investing in social venture funds, with the participation amounting to EUR 1 million over an engagement period of up to 5 years. In 2018, a Consent for extending the investment period of the SIA Fund by 1 year. The goal of the SIA program is to invest in small and medium-sized enterprises having considerable social impact. EIF is the manager of the program.

As of 31 December 2020, eighteen equity contributions were made under the initiative amounting to EUR 486 thousand equivalent to BGN 950 thousand (2019: EUR 403 thousand equivalent to BGN 788 thousand) (Note 21).

Three Seas Initiative

By Decision No 613 of 2 September 2020, the Council of Ministers of the Republic of Bulgaria approved the participation of BDB in the Investment Fund of the “Three Seas” Initiative. The participation of BDB is related to a contribution of EUR 20 million in the capital of a specially created company. The Three Seas Initiative has an objective to strengthen investments, relations and cooperation – political and financial, between the member states in the region. This is a public-private financial instrument whose purpose is to complement the financing from the European Union’s structural and other funds.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

BULGARIAN DEVELOPMENT BANK EAD (CONTINUED)

Three Seas Initiative (continued)

As of 31 December 2020, BDB has transferred EUR 7,014 thousand (BGN 13,717 thousand) to cover its participation in the investments in the Three Seas Fund up to this stage. Since the certificate for purchased shares has been received after the date of the financial statements, as of 31 December 2020, the amount has been reported in Prepayments and advances (Note 27), whereas the commitment for contribution in equity, which is not yet due is reported in the current note. Detailed description of the initiative is presented in Note 21.

Guarantee programmes for small and medium-sized businesses

In 2015, the Bank launched a new program for indirect financing of micro, small and medium-sized businesses subject to a maximum of BGN 150,000 thousand. Under the program BDB will be able to assume part of the risk – up to 30 per cent of the amount of the individual sub-loans - on loans granted by partner banks to businesses. As of 31 December 2020, the Bank has effective agreements with five partner banks and the so-formed portfolio of guarantees amounts to BGN 1,482 thousand (31 December 2019: five partner banks and portfolio of guarantees amounting to BGN 2,168 thousand).

Bank guarantees and letters of credit

Besides, the Bank issues bank guarantees and letters of credit to third parties for the performance of their activity.

NATIONAL GUARANTEE FUND

Guarantee scheme 2009-2013

In 2020 there are active agreements for portfolio guarantees with 6 banks under the guarantee scheme 2009- 2013, to which NGF is a party. The maximum term of guarantees is up to 10 years. The guarantee limit granted to banks for the period of implementation of the guarantee scheme amounts to BGN 146,500 thousand (2019: BGN 146,500 thousand). The total amount of guarantees issued under the program is BGN 168,000 thousand and the guarantees on loans amount to BGN 391,000 thousand. Over 2,300 SMEs were supported.

As at 31 December 2020, the approved amount of the guarantees included in the partner-banks' portfolio amounts to BGN 3,133 thousand (2019: BGN 4,337 thousand), and the amount of the guaranteed debt is BGN 1,311 thousand (2019: BGN 1,692 thousand).

Guarantee scheme 2015-2017

In 2015 the procedure for selection of NGF partner banks under a new guarantee scheme was launched. After completion of the selection procedure and analysis of commercial banks, from early October 2015 to early January 2016 guarantee agreements were signed with 10 commercial banks at the total amount of BGN 326,000 thousand. In 2016, the total guarantee limit was increased to BGN 379,000 thousand upon request of two of the banks which signed the agreement. Same as under the previous scheme, eligible for inclusion are only new loans for investment and working capital purposes. Under the scheme NGF guarantees up to 50% of the loan amount, but not more than BGN 1 million in case of related parties.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

NATIONAL GUARANTEE FUND (CONTINUED)

Guarantee scheme 2015-2017 (continued)

The deadline for inclusion of loans in the guaranteed loan portfolio was March 31, 2017. The guarantee scheme was introduced a maximum limit on payments for each guaranteed portfolio in the amount of up to 25%, where the NGF reserves the right to exclude loans from the guaranteed portfolio in case of non-compliance with the scheme requirements. Banks pay a guarantee fee based on volumes achieved, whereas the borrowers are exempt from fees for the NGF guarantees. The number of supported SMEs from the beginning of the guarantee scheme until expiration of the registry period is 2,024, 57% of which are micro, 33% are small and 10% are medium-sized enterprises.

The total funds made available to banks to include loans in the portfolio amount to BGN 379,000 thousand (2019: BGN 379,000 thousand).

As of 31.12.2020, the approved amount of guarantees included in the portfolios of partner banks is BGN 19,329 thousand (2019: BGN 132,786 thousand), and the amount of the guaranteed debt is BGN 9,662 thousand (2019: BGN 88,058 thousand).

Guarantee scheme 2017-2018

In the beginning of 2017, NGF EAD initiated a procedure to extend the guarantee scheme NGF 2015-2017 for a new period. All banks applied to participate and signed new agreements for the amount of BGN 328,000 thousand. Same as under the previous scheme, eligible for inclusion are only new loans for investment and working capital purposes. Under the scheme NGF EAD guarantees up to 50% of the loan amount, but not more than BGN 1 million in case of related parties. The deadline for inclusion of loans in the guaranteed loan portfolio was 30 September 2018. The guarantee scheme was introduced a maximum limit on payments for each guaranteed portfolio in the amount of up to 25%, where the NGF EAD reserves the right to exclude loans from the guaranteed portfolio in case of non-compliance with the scheme requirements. Banks pay a guarantee fee based on volumes achieved, whereas the borrowers are exempt from fees for the NGF EAD guarantees.

After subsequent annexes, the total funds made available to banks to include loans in the portfolio amount to BGN 416,131 thousand.

As at 31 December 2020, the approved amount of guarantees included in the portfolios of partner banks amounted to BGN 218,943 thousand (2019: BGN 269,685 thousand) and the amount of the guaranteed debt is BGN 152,808 thousand (2019: BGN 210,300 thousand). The number of enterprises is 3,000.

Guarantee scheme 2019-2020

In early 2019, NGF EAD launched a procedure for selecting partner banks under the new guarantee scheme NGF 2019-2020. Only newly granted loans for investment and working capital purposes are eligible for inclusion. Under the scheme NGF EAD guarantees up to 50% of the loan amount, but not more than BGN 1.5 million for group of related parties. The term for inclusion of loans in the guaranteed portfolio is 30 September 2020. The guarantee is portfolio-based and amounts of BGN 500 thousand require prior written consent by NGF EAD.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

NATIONAL GUARANTEE FUND (CONTINUED)

Guarantee scheme 2019-2020 (continued)

Under the new guarantee scheme a limit of payments of up to 25% was introduced for each guaranteed portfolio, where the NGF EAD retains the right to exclude loans from the guaranteed portfolio if they don't meet the requirements of the scheme. The banks will pay a guarantee fee based on volumes reached, and the borrowers are exempt from fees under the NGF EAD guarantees.

As at 31.12.2020 agreements were signed with 6 banks with a maximum guaranteed portfolio amount of BGN 244,000 thousand.

As at 31 December 2020, the approved amount of guarantees included in the portfolios of partner banks amounted to BGN 103,825 thousand (2019: BGN 27,053 thousand) and the amount of the guaranteed debt is BGN 96,854 thousand (2019: BGN 24,426 thousand). The number of enterprises supported is 760.

Guarantee scheme under COSME Programme of the European Commission

In December 2016, an agreement was signed between the European Investment Fund (EIF) and the National Guarantee Fund EAD providing an additional EUR 40 million for funding small and medium-sized enterprises in Bulgaria under the COSME Programme of the European Commission. The funds are provided with the support of the European Fund for Strategic Investments (EFSI), which is the fundament of the Investment Plan for Europe (Juncker Plan). EIF provides a guarantee line of EUR 20 million, based on which NGF EAD will support funding of EUR 40 million to SMEs in Bulgaria struggling to secure the required collateral. Agreements for portfolio guarantees are concluded under this scheme with 5 commercial banks - Bulgarian-American Credit Bank AD, T.B.I. Bank EAD, BDB Microfinancing EAD (previously Microfinancing Institution JOBS EAD), First Investment Bank AD, Eurobank Bulgaria AD. The maximum limit is BGN 43,338 thousand.

As at 31 December 2020, guarantees amounting to BGN 37,653 thousand (2019: BGN 15,164 thousand) are issued on 415 loans for a total amount of BGN 75,306 thousand (2019: BGN 54,576 thousand). The current guaranteed debt as at 31 December 2020 is BGN 24,038 thousand (2019: BGN 17,236 thousand). 308 enterprises are supported.

Guarantee program to support beneficiaries under Operational Programme Fisheries Sector Development 2007 – 2013 (OPFSD)

Based on a financial agreement with EAFA from 2011, NGF EAD implements a guarantee scheme in the Fishing sector. The guarantees issued by NGF EAD under this program are risk-free for the Company as the claims are paid at the expense of the funds provided under OPFSD. NGF EAD has signed agreements with 16 commercial banks under this program. Under the scheme, projects amounting to BGN 46,000 thousand have been implemented, including BGN 33,000 thousand under measure 2.1 (79% of the measure's budget); under measure 2.6, the projects supported amount to BGN 12,000 thousand (77% of the measure's budget). The projects supported under measure 4.1 amount to BGN 500 thousand. Supported beneficiaries were 25 in number.

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

NATIONAL GUARANTEE FUND (CONTINUED)

Guarantee program to support beneficiaries under Operational Programme Fisheries Sector Development 2007 – 2013 (OPFSD) (continued)

As at 31 December 2020, at a maximum amount of guarantee coverage of 80%, NGF EAD has issued risk-free guarantees and counter-guarantees for loans issued to partner banks to finance approved projects under the Operational Programme Fisheries Sector Development 2007 – 2013 at the amount of BGN 20,780 thousand with a total amount of loans/bank guarantees – BGN 30,551 thousand (2019: guarantees - BGN 13,847 thousand) with a total amount of loans/bank guarantees – BGN 20,780 thousand).

The carrying amount of guaranteed debt as at 31 December 2020 is BGN 448 thousand (2019: BGN 1,951 thousand).

Guarantee scheme to support beneficiaries under the Rural Development Programme 2007 – 2013 (RDP)

Based on a financial agreement with the Ministry of Agriculture, Food and Forestry from 2012 NGF EAD implements a guarantee scheme to support beneficiaries of RDP 2007-2013. The guarantees issued by NGF EAD under this program are risk-free for the Company as the claims are paid at the expense of the funds provided under RDP. Under the scheme, 544 beneficiaries are supported under the project implementation program, where 84% of the entities are considered micro, 14% are small and 3% are medium.

As at 31 December 2020, at a maximum amount of guarantee coverage of 80%, NGF EAD has issued risk-free guarantees and counter-guarantees for loans issued to partner banks to finance approved projects under the Rural Development Programme in the Republic of Bulgaria 2007-2013 at the amount of BGN 185,606 thousand (2019: BGN 185,606 thousand) with a total amount of loans amounting to BGN 238,112 thousand (2019: BGN 238,112 thousand).

The carrying amount of guaranteed debt as at 31 December 2020 is BGN 4,481 thousand (2019: BGN 7,332 thousand).

Guarantee scheme to support beneficiaries under the Rural Development Programme 2007 – 2013, 2014 – 2020 and enterprises from Crop and animal production Sector – Guarantee scheme – Ministry of Agriculture, Food and Forestry 2016-2018

This scheme is a joint guarantee scheme with the Ministry of Agriculture, Food and Forestry and is realized with released funds under the RDP guarantee scheme 2007-2013 amounting to BGN 50 million to finance approved projects under the Rural Development Programme in the Republic of Bulgaria 2014 - 2020. The guarantees issued by NGF EAD under this program are risk-free for the Company as the claims are paid at the expense of the funds provided under RDP

37. CONTINGENCIES AND COMMITMENTS (CONTINUED)

NATIONAL GUARANTEE FUND (CONTINUED)

Guarantee scheme to support beneficiaries under the Rural Development Programme 2007 – 2013, 2014 – 2020 and enterprises from Crop and animal production Sector – Guarantee scheme – Ministry of Agriculture, Food and Forestry 2016-2018 (continued)

As at 31 December 2020, at a maximum amount of guarantee coverage of 50%, NGF EAD has issued risk-free guarantees and counter-guarantees for loans issued to partner banks to finance approved projects under the Rural Development Programme in the Republic of Bulgaria 2014 - 2020 at the amount of BGN 101,602 thousand (2019: BGN 90,200 thousand) with a total amount of loans amounting to BGN 204,972 thousand (2019: BGN 182,159 thousand). The maximum guarantee limit under the program is BGN 50,000 thousand. As at 31 December 2020, the number of guarantee loans is 161 for a total amount of BGN 105,985 thousand (2019: 90,200 BGN thousand). Supported SMEs are 214.

The carrying amount of guaranteed debt as at 31 December 2020 is BGN 47,354 thousand (2019: BGN 46,009 thousand).

Nature of instruments and credit risk

These commitments of contingent nature bear an off-balance sheet credit risk because only fees are recognised in the financial statements until the commitments are fulfilled or expire. The amounts reflected in the above table as guarantees represent the maximum accounting loss that would have been recognised at the end of the reporting period if counterparties failed to perform in full their contractual obligations. Many of the contingent liabilities and commitments will expire without being advanced fully or partially. Therefore, the amounts do not represent expected future cash flows. Collateral for issuance of common bank guarantees exceeds 100% and represents primarily restricted deposits at the Bank, mortgages of real estate and insurance policies issued in favour of the Bank. When conditions for enforcement of an issued guarantee occur, the Bank judges the possibilities for recourse to the counterparty and eventual realisation of the provided securities.

The guarantees of the parent company (the "Bank"), issued under the Micro-credits Guarantee Fund Project of MLSP, and the guarantees issued at own risk of NGF (subsidiary of BDB) are not secured. In case of activation of a component of a guarantee issued by the Group, the payment thereon is not assessed as ultimate loss because the partner-bank is obliged to undertake all necessary measures for realising the received collateral of the non-performing loan and to reimburse the respective amount to the Group.

The non-paid portion of the nominal value of EIF shares held by the Bank shall become due for payment after a special decision for this purpose taken by European Investment Fund's General Meeting of Shareholders. By the issue date of this financial statement no such a decision has been taken.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

38. CASH AND CASH EQUIVALENTS

	2020	**2019**
Cash in hand (Note 16)	601	313
Current account with the Central Bank (Note 16)	495,678	250,330
Receivables from banks with original maturity up to 3 months (Note 17)	283,078	204,120
	779,357	**454,763**

39. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE

Related parties:

The following table above shows the companies with which the Bank had transacted during the reporting period. All related party transactions were carried out at agreed prices.

Entity/person	*Type of control*
Ministry of Economy	Majority shareholder of the capital of the Bank representing the State
Ministry of Finance	Company under joint control with the State
Avtomagistrali EAD	Company under joint control with the State
South Stream Bulgaria AD	Company under joint control with the State
Eko Antratsit EAD	Company under joint control with the State
Montazhi - Sofia EOOD	Company under joint control with the State
ICGB AD	Company under joint control with the State
Holding Bulgarian State Railways EAD	Company under joint control with the State
Saint Ekaterina University Multiprofile Hospital for Active Treatment	Company under joint control with the State
Bulgarian Institute for Standardization	Company under joint control with the State
Terem – Holding EAD	Company under joint control with the State
Bulgarian Energy Holding EAD	Company under joint control with the State
Energy Investment Company EAD	Company under joint control with the State
Kinteks EAD	Company under joint control with the State
Vodosnabdiavane i kanalizacia EOOD Plovdiv	Company under joint control with the State
TPP Maritsa East 2 EAD	Company under joint control with the State
State Consolidation Company EAD	Company under joint control with the State
Avionams AD	Company under joint control with the State
Vodosnabdiavane i kanalizacia Shumen OOD	Company under joint control with the State
Montazhi EAD	Company under joint control with the State
Bulgarian W&S Holding EAD	Company under joint control with the State
Bulgartransgas EAD	Company under joint control with the State
State enterprise KABIUK DP	Company under joint control with the State
Multiprofile Hospital for Active Treatment Lozenetz EAD	Company under joint control with the State
BDZ Freight Services EOOD	Company under joint control with the State
Sofia Tech Park AD	Company under joint control with the State
Irrigation systems EAD	Company under joint control with the State

All amounts are in thousand Bulgarian Levs, unless otherwise stated

39. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)

Related party balances in the statement of financial position at the end of the reporting periods are as follows:

Assets

Entity/person	Type of balance	2020	2019
Ministry of Finance	Financial assets at fair value through other comprehensive income	471,139	417,526
Ministry of Finance	Ministry of Finance at amortized cost – Debt securities	10,126	10,194
Companies under joint control with the State	Loans and advances to customers	300,992	103,516
Companies under joint control with the State	Financial assets at fair value through other comprehensive income	22,649	23,983
		804,906	**555,219**

Liabilities

Entity/person	*Type of balance*	2020	2019
Ministry of Finance	Other borrowings	16,932	17,119
Companies under joint control with the State	Liabilities to customers on deposits and other borrowings	428,586	767,433
		445,518	**784,552**

Related party transactions:

Entity/person	*Type of relation*	2020	2019
	Fee and commission income	58	60
Ministry of Finance	Interest income	1,906	3,353
	Interest expenses	(117)	(121)
		1,847	**3,292**
Companies under joint control with the State	Interest income	5,067	5,929
	Fee and commission income	232	161
	Interest expenses	(86)	(216)
	Other operating expense	(21)	(3)
	Other operating income	37	24
		5,229	**5,895**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

39. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)

Commitments and contingencies with related parties:

Entity/person	***Type***	**2020**	**2019**
Companies under joint control with the State	Unutilised amount of a loan approved	40,649	43,677
Companies under joint control with the State	Bank guarantees issued	6,528	7,956
		47,177	**51,633**

Relations with key management personnel:

Balances with key management personnel	**2020**	**2019**
Payables to customers on deposits	378	773
Remuneration payable	71	154
Loans and advances to customers	145	130
Other liabilities	32	-

Transactions with key management personnel	**2020**	**2019**
Remuneration and social security contributions	(3,144)	(2,292)
Interest income	4	3

40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS

No adjusting events or significant non-adjusting events have occurred after the reporting date until the date of approval of the consolidated financial statements apart from the changes in the management bodies of the Bank and subsidiaries, disclosed in Note 1 of these financial statements and the following non-adjusting events:

In the beginning of January 2021, the partner banks of the BDB under the **Program to protect people deprived of the opportunity to work due to the COVID-19 pandemic** initiated the acceptance of applications under the renewed terms of the Program in accordance with the Decision of the Council of Ministers 910/10.12.2020. The main changes approved by the Decision of the Council of Ministers 910/2020 are increase of the limit of the guaranteed by the BDB interest-free loans to one individual from BGN 4,500 to BGN 6,900 and extension of the deadline for application until 30 August 2021 or until the guarantee limits of the partner commercial banks under the Programme have been exhausted. When calculating the provisions as of 31 December 2020 this increase has been taken into account.

40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)

The Bulgarian Development Bank EAD and the University for National and World Economy will perform joint research in the field of finance and corporate governance. This became possible after a memorandum for three- year cooperation between the two institutions was signed in February 2021. The agreement provides for initiatives in the field of banking, financing of small and medium-sized enterprises, acquisition of shares, processing of statistics and others. On-site visits will be organized in companies within the BDB Group and meetings with experts, organization of trainings and undergraduate internships and practices. Joint scientific events, trainings and competitions are also planned to be held.

The Bulgarian Development Bank EAD and Sofia University "St. Kliment Ohridski" signed in April 2021 a Memorandum for cooperation which envisages assisting training and career development of students and doctoral students in the University, partnership in conducting surveys, research and research related to banking, financing of small and medium-sized enterprises, good corporate governance, etc.

On 1 March 2021 the international rating agency Fitch Ratings **increased the outlook for the Bulgarian Development Bank EAD** from stable to **positive** and **confirmed the long-term credit rating of the Bank to "BBB".** The rating agency's assessment is based on the reliable support of the sovereign - the Bulgarian State, the BDB's good financial performance, and its role in supporting the government's economic policy. The stable outlook shows the existence of a balance in risks associated with credit rating assessments. The long-term investment rating of the Bank is also equal to the rating of the sovereign: the last credit rating of the Republic of Bulgaria awarded by Fitch Ratings – "BBB" with positive outlook – is from 19 February 2021.

According to Decision of the Council of Ministers No 194 /05.03.2021, "Bulgarian Development Bank" AD was granted the right to **increase by up to BGN 100 million** the amount of the guarantee programme for interest-free loans to individuals on unpaid leave and self-insured (the "Interest-free Loan Guarantee Program to protect people deprived of the opportunity to work due to the COVID-19 pandemic") at the expense of the budget of the Portfolio Guarantees Programme to support the liquidity of enterprises affected by the state of emergency and the Covid-19 pandemic. Thus, the possibilities for making guarantee commitments under the Guarantee Programme for interest-free loans for individuals on unpaid leave and self-insured was increased to BGN 300 million.

By Decision of the Council of Ministers No 506/15.07.2021, the deadline for applying under the Interest-free Loan Guarantee Program to protect people deprived of the opportunity to work due to the COVID-19 pandemic is extended until 31 August 2021 or until the guarantee limits of the commercial partner banks under the Programme are exhausted.

The Portfolio Guarantees Programme to support the liquidity of enterprises affected by the state of emergency and the Covid-19 pandemic was updated by Decision of the Council of Ministers No 194/05.03.2021 and by Decision of the Council of Ministers No 578/05.08.2021. The programme is aiming to synchronize it with the upgrading mechanism for intervention developed in May 2021 by the Ministry of Economy and the Ministry of Finance, which provides liquid support to enterprises - "Portfolio guarantee to overcome the consequences of COVID-19".

40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)

The Bulgarian Development Bank EAD nominated two representatives to the management of the Three Seas Investment Fund – in March 2021 the executive directors of BDB Nikolay Dimitrov and Panayot Filipov were elected at the General Meeting of the Three Seas Investment Fund and to represent Bulgaria in the Investment Fund. After changes in the management of the BDB as new representatives of the Bank by decision of the General Meeting of the Investment Fund of 22 September 2021 were elected: as member of the Supervisory Board of the Investment Fund – Mr. Tsanko Arabadzhiev – member of the Management Board of BDB and Executive Director and Mr. Ilia Lingorski – Chief economist of the BDB as member of the Management Board of the Investment Fund, which will provide part of the necessary funding to strengthen the co-operation between the member-states in the Black, Adriatic and Baltic Sea region. In July 2021 the BDB hosted an investment panel during the Three Seas Forum in Bulgaria. The Three Seas Invest Fund is a financial mechanism for implementing priority projects in the region: transport, digital and energy infrastructure. Its exclusive investment advisor is Amber Infrastructure Group (Amber) – specialized international manager, working in the field of investment creation and management of assets and funds.

The Pan-European Guarantee Fund was established as part of the overall package of measures of the EU and the European Investment Bank Group to reduce the economic consequences of the COVID-19 pandemic. Its final beneficiaries are mainly small and medium-sized enterprises in the EU and public enterprises, providing important services such as healthcare, medical research and others. The total amount of financing is expected to be EUR 200 billion. **The Bulgarian Development Bank Group applied and was approved as financial intermediary under the guarantee programme of the Pan-European Guarantee Fund**, under which its new product was created. From the end of September 2021 through financial instruments of the Pan-European Guarantee Fund, BDB will present three new products on the Bulgarian market for small and medium-sized businesses, the sector of creative industries and start-ups in production. The programme, amounting to EUR 40 million in volume, is implemented with the Pan-European Guarantee Fund as partner and through it the BDB will be able to grant direct loans under easier loan terms.

The name of the company Microfinancing Institution JOBS EAD was changed to **BDB Microfinancing EAD effective as of 12 April 2021**. The change reflects more fully the focus of the company in support of micro businesses, as well as its affiliation to the financial group of the Bulgarian Development Bank EAD. For 11 years BDB Microfinancing EAD (previously Microfinancing Institution JOBS EAD) has been creating conditions for successful development of micro and small enterprises, using effective models and practices in the field of lending and leasing.

In the beginning of September 2021, the Management Board of BDB, in its capacity of sole owner of the capital of BDB Microfinancing EAD (previously Microfinancing Institution JOBS EAD), took a decision to increase the capital of BDB Microfinancing EAD (previously Microfinancing Institution JOBS EAD) with the amount of BGN 7,000,000 by issuing new shares. The company's capital increase is entered in the Commercial Register on 13 October 2021.

By Protocol №21/23.03.2021 the Management Board of BDB in its capacity of sole owner of the capital of BDB Factoring took a decision to **merge BDB Factoring in BDB**, and BDB will assume fully the activities of BBR Factoring EAD, as well as its assets and liabilities. The Bulgarian National Bank and the Commission for Protection of Competition have adopted decisions in relation to the transformation and finalization of the procedure is forthcoming.

40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)

Changes related to the ownership of the capital of Bulgarian Development Bank EAD

On 13 May 2021 the Council of Ministers adopted Decision No 414 to increase the state's shareholding in the capital of Bulgarian Development Bank EAD. By this decision the increase in the shareholding of the state in the capital of Bulgarian Development Bank AD by acquiring by donation all shares held by DSK Bank EAD in the capital of Bulgarian Development Bank AD, namely 8 dematerialized shares, each with a nominal value of BGN 100, a total of BGN 800, representing 0.000055 per cent of the capital of Bulgarian Development Bank AD was approved.

On 14 May 2021, a contract was concluded for the donation of 8 dematerialized shares between DSK Bank and the Republic of Bulgaria. The transfer of ownership of the shares is registered with the Central Depository of the Republic of Bulgaria. On 4 June 2021, the Bulgarian Development Bank EAD was registered in the Commercial Register and the register of non-profit legal entities as a sole – owned commercial company.

Changes in the Statute of the Bulgarian Development Bank EAD

By decision of the Minister of Economy under Protocol of 21 May 2021, amendments were made in the Statute of the Bulgarian Development Bank, most of the changes related to reflecting the change in ownership of the capital of the Bank (sole shareholder company). The amendments to the Statute, which explicitly state that the priority in the Bank's credit activity, should be indicated as essential for lending to export-oriented small and medium-sized enterprises with high added value. A restriction has been introduced for BDB to form exposures to one client or group of related clients whose total amount exceeds BGN 5 million, and this restriction does not apply to other credit institutions, the Council of Europe Development Bank, the European investment activity, the European Investment Fund, development banks from Member States of the European Union, as well as in the cases, when BDB implements specifically government-mandated programmes. A requirement has been introduced for exposures to a client or group of related clients whose amount exceeds BGN 1,000,000 to be approved by the Management Board by unanimous decision and only after the permission of the Supervisory Board.

By decision of the Minister of Economy under a protocol of 10 June 2021, new amendments were adopted in the Statute of Bulgarian Development Bank EAD, which are related to the number of the management and supervisory bodies of the Bank. According to the changes in the Statute, the Supervisory Board consists of three to seven persons, the Management Board consists of three to seven members.

By decisions of the Minister of Economy under protocol of 1 June 2021 and under protocol of 20 July 2021, new amendments have been adopted in the Statute of Bulgarian Development Bank EAD, under which the limit for exposures of more than BGN 5 million does not apply to the subsidiaries of the Bank. The Statute explicitly specifies that the Bank shall not form new exposures on an individual and consolidated basis to one client or group of related clients whose total amount exceeds the amount of BGN 5,000,000. It is also specified that the approval of credit transactions and changes to existing contracts is carried out in accordance with the Bank's current rules on credit activity, the Statute and the applicable legislation. These amendments to the Statute have been approved by the Bulgarian National Bank and have been entered into the Commercial Register and the register of non-profit legal entities under the lot of Bulgarian Development Bank EAD.