# ANNUAL DISCLOSURE OF TBI BANK EAD

PER THE REQUIREMENTS OF ART. 70 OF THE LAW ON CREDIT INSTITUTIONS AND PART EIGHT OF REGULATION (EU) №575 / 2013

2021

June 2022
Sofia, Bulgaria

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## I. SCOPE AND METHOD OF CONSOLIDATION

The present disclosure is made on a consolidated basis. All amounts are in thousands leva. The data presented is as of 31.12.2021.

## II. GENERAL INFORMATION AND TBI GROUP STRUCTURE

2002 • **TBI Bank JSC** (herein after referred to as the "Bank") was founded on the 11th of November, 2002 as a joint-stock company with a two-tier management system, under the name West-East Bank JSC, with the following shareholders: *Activa Holding B.V.*, Slovenia, *Factor Banka d.d.*, Slovenia, and *LB Maxima d.o.o.*, Slovenia. After the obtaining on the 13th of August, 2003 of a Bulgarian National Bank license for the performance of banking services, on the 28th of August, 2003 the Bank was registered in Sofia City Court as a joint-stock company and started its activity on the 1st of October of the same year. In 2006 *Nova Ljubljanska Banka d.d.*, Slovenia acquired 97.01% of the Bank's share capital (the remaining 2.99% of the shares being held by *Factor Banka d.d.*, Slovenia). The original name of the Bank was changed to NLB Bank West-East JSC, and latter to NLB Bank Sofia JSC.

2011 • On the 28th of July 2011 the Bank became part of the *Kardan N.V.* Group (www.kardan.com), which acquired 100% (38,399,001 shares) of the Bank's capital through its subsidiary *TBIF Financial Services B.V*, The Netherlands (www.tbif.com). In November, 2011 the Bank's name was changed to TBI Bank JSC. The corporate stucture includes TBI Rent EAD and TBI Leasing EAD, Bulgaria and TBI Money IFN S.A. (previous name TBI Credit IFN, SA) and TBI Leasing IFN SA, Romania.

2012 • In October 2012 TBI Bank Sofia – Bucharest Branch was established on the single European passport right.

2016 • On 11 August 2016 4finance Holding S.A. (www.4finance.com), one of Europe's largest online and mobile consumer lending groups, completed the purchase of TBI Bank EAD through the acquisition of 100% of TBIF Financial Services B.V. The shareholder group 4finance Holding S.A. is offering fast and convenient loans to customers across 9 countries. The corporate stucture includes the financial institutions TBI Money IFN, SA and TBI Leasing IFN SA, Romania

2019 • In June 2019 TBI Bank become a sole owner of the financial insitutuion 4Finance EOOD, Bulgaria (www.vivus.bg), previously owned by 4finance Holding S.A.

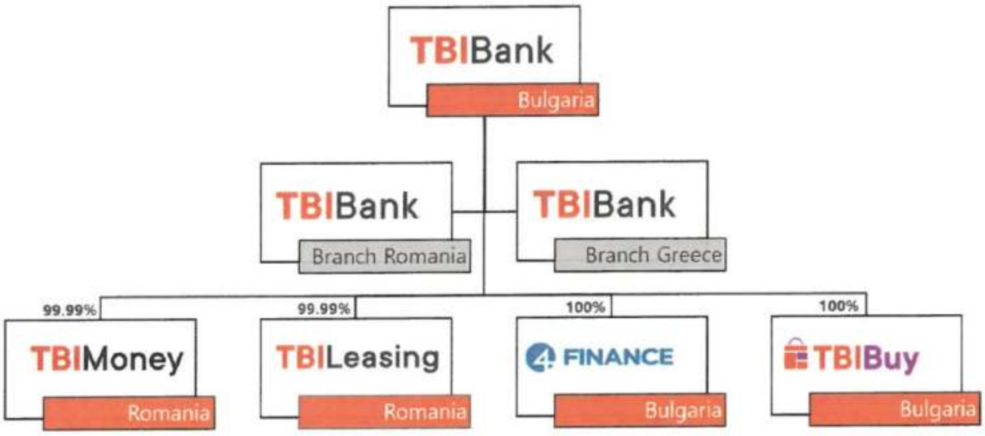
2021 • On 23rd April 2021 TBI Bank established the entity TiBuy EAD.

2022 • In February 2022 TBI Bank Sofia – Athens Branch was established on the single European passport right.

TBI Bank JSC Group as of 31st December 2021 is licensed by the Bulgarian National Bank for the performance of banking operations in Bulgaria, Romania and Greece (core markets) and has european passport for cross border activities in EU, respectively for deposit gathering in Germany and for lending activities in Sweden, Denmark, Poland and Lithuania (currently active activity only in Germany and Lithuania).

**1. TBI Bank Group entities**

As of end of 2021 TBI Bank JSC Group structure is as follow:




The Bank has 99,99% of shares in TBI Money S.A., Romania and TBI Leasing S.A., Romania. The remaining 0.1% is owned by TBI Financial Services B.V., The Netherlands (previously named TBIF Financial Services B.V., The Netherlands).

**TBI Bank JSC, Bulgaria** is a retail bank, providing unsecured consumer loans to individuals and business financing to micro, small and medium size companies, sole traders and agro producers, unsecured or secured by real estates as well as current accounts and deposits (www.tbibank.bg).

**TBI Bank Sofia – Bucharest Branch, Romania** as of December 2021, the Branch in Romania is focused on the Bank`s business financing and deposit services. The Branch is Managed and represented by Gergana Staykova, with two Deputy Branch Managers – Costin Monkovic, Chief Credit Officer and Andreea Staicu – ERM & Compliance Officer.

**TBI Bank Sofia – Athens Branch, Greece** as of December 2021, the Branch in Greece has just acquired all regulatory apprvoals and is registered in Greece in Februry 2022. The Branch activity will be focused on retail lending. The Branch is Managed by the Manager, Konstantinos Tovil and a Deputy Branch Manager – Vesela Stamenkova, Credit Risk Officer.

**"TBI Money" S.A., Romania** is a licensed financial institution established in 2003 that provides the Bank's retail lending activities in Romania. The isntutution has Board of Directors with the following members, part of the Group of TBI Bank JSC – Gergana Staykova, Costin Moncovici, Armen Metevosyan . The entity is represented by the General Manager, Gergana Staykova and the following Leaders, approved by National Bank of Romania – Preslava Dobreva, Head of Operations, Laura Vizir, Head of Retail Products & Projects and Ruxandra Clinciu, Head of Retail Collections.

**TBI Leasing, SA. (previously TBI Leasing IFN S.A.), Romania** is a licensed financial institution, established in 2002 which provided financial leasing services in Romania. Since the Branch of TBI Bank in Romania provides the similar activities and the entity had no actual business, it was decided in 2021 the entity to be deregistered as leasing entity. As of 31st December 2021 the company has Board of Directors consistent of Florentina Mircea, Radu Picu, Head of Business Banking Risk in the Branch in Romania and Alexandru Cosma, Head of Business Banking Division in the Branch in Romania. Due to the detregistration of the entity and for proceeding with the collection activities of the leasing company the Board of Directors of TBI Leasing is restructured. In 2022, Andrei Talanga, Head of Business Banking Collection and Inventory management for Romania, Konstantinos Tovil and Preslava Dobreva were appointed as BoD members. Company is be representaed by Andrei Talanga – General Manager.

**4Finance EOOD, Bulgaria**, activing under the trade mark Vivus (www.vivus.bg) is financial institution, established in Bulgaria in 2013 by 4 Finance SA, Latvia and in 2019 TBI Bank JSC becomes sole owner of the entity. Vivus offers online and offline unsecured retail loans up to the amount of BGN 1 300 for Bulgarian citizens and foreigners with temporary or permanent residence. Managing directors and representatives of 4Finance EOOD are Armen Matevosyan and Zdravko Raichev, the last being a Managing director since the establishment. As of 21st of March 2022 the name of the company was changed to Vivus.BG EOOD.

**TBI Buy EAD, Bulgaria** establlished in 2021 is 100% owned by TBI Bank JSC. TBI Buy is going to launching & operating a marketing digital platform aiming at the promotion of the Bank's financial products available to the app users, including (i) partner network & products, (ii) loyalty program for bonus points accrued with the purchase of products from TBI Buy's partner network (iii) buy now pay later ("BNPL" – provided by TBI Bank) – an integral part of the platform; (iv) online marketplace. Furthermore, TBI Buy offers a variety of additional services, aiming to solve problems experienced by retailers, such as (i) real-time marketing channel (ii) loyalty technological solution (iii) sales management digital solutions (iv) consulting services & data analytics in regards to TBI Bank's financial products.

The Board of Directors of the entity consist of Denis Gorbunov, Nikolay Spasov and Panayot Ivanov, where the company is represented by Denis Gorbunov.

TBI Bank EAD has a two-tier management structure - Supervisory Board and Management Board. All members of the Supervisory and Management Board comply with the requirements of Credit Institutions Act and Ordinance 20 of the Bulgarian National Bank. This structure provides for better corporate governance.

The Supervisory Board consists of at least 3 (three) but not more than seven (7) members. Members of the Supervisory Board are appointed and dismissed by the General Assembly of Shareholders. Members of the Supervisory Board are elected for a term of five (5) years. The composition of the Supervisory Board of "TBI Bank" JSC shall be persons with appropriate qualifications and experience corresponding to the ongoing activities of the Bank and the main risks to which it is or may be exposed.

Management Board members are elected by the Supervisory Board for a term of office of five (5) years. The Management Board consists of at least three (3) members but not more than seven (7) members. At least 2 (two) members of the Board are Executive Director (executive members), the Bank is only represented by two Executive Directors together. The members of the Board, with the approval of the General Assembly, elect one of them for Chairman of the Board. Only those individuals who have received appropriate prior approval of the Bulgarian National Bank to manage and represent the Bank under the terms provided for in current legislation can be appointed as MB members. The composition of the Management Board of "TBI Bank" JSC shall be persons with proven leadership qualities are prerequisites for achieving the objectives of the Bank.

TBI Bank EAD has an explicit written policy of diversity regarding the administrative, management and supervisory bodies. The composition of these bodies is functionally diverse in terms of age, education and professional experience.

## III. FINANCIAL FIGURES ON CONSOLIDATED BASIS

The TBI Bank EAD financial report is prepared in compliance with the international standards on financial reporting applicable in the European Union. The items included in the Bank's financial report are calculated and presented in the national currency of the Republic of Bulgaria. Under the terms and conditions of the Bulgarian National Bank Act of 1997, as of the 1st of January, 1999 the Leva is pegged to the Euro at an exchange rate of 1.95583 Leva per Euro.

The distribution of Balance sheet items is as follows:

| | Consolidated | | Standalone | |
|---|---|---|---|---|
| **ASSETS** | 2020 | 2021 | 2020 | 2021 |
| Cash, cash balances at central banks | 147 345 | 208 230 | 147 341 | 208 229 |
| Other demand deposits | 20 062 | 33 066 | 18 684 | 28 843 |
| Derivatives | 2 145 | 5 566 | 2 145 | 5 566 |
| Financial assets through profit and loss | 4 940 | - | 4 940 | - |
| Financial assets through OCI | 153 170 | 108 070 | 153 170 | 108 070 |
| Loans to customers | 700 507 | 962 169 | 623 312 | 877 210 |
| Other assets | 15 398 | 20 307 | 27 280 | 21 922 |
| Current tax assets | 3 066 | 1 209 | 2 650 | 828 |
| Investments in subsidiaries | - | - | 16 401 | 18 451 |
| Intangible assets | 12 834 | 16 672 | 10 232 | 13 920 |
| Fixed assets | 20 640 | 23 574 | 17 461 | 18 451 |
| Acquired assets | 7 394 | 8 887 | 6 368 | 7 527 |
| | - | - | - | - |
| **Total assets** | 1 087 501 | 1 387 750 | 1 029 984 | 1 309 017 |
| | - | - | - | - |
| **LIABILITIES** | - | - | - | - |
| Derivatives | 4 432 | 6 050 | 4 432 | 6 050 |
| Deposits from other financial institutions | 31 339 | 13 042 | 31 339 | 13 042 |
| Deposits from customers | 733 191 | 955 714 | 740 469 | 971 555 |
| Lease liabilities | 7 549 | 9 422 | 5 008 | 5 348 |
| Tax liabilities | 1 341 | 3 885 | - | 1 204 |
| Other liabilities | 43 972 | 62 645 | 28 257 | 44 531 |
| Subordinated debt | - | 19 829 | - | 19 829 |
| **Total liabilities** | 821 824 | 1 070 587 | 809 505 | 1 061 559 |
| | | - | - | - |
| **EQUITY** | - | - | - | - |
| Paid up capital | 81 600 | 81 600 | 81 600 | 81 600 |
| Other reserves | 8 392 | 8 392 | 8 350 | 8 350 |
| Revaluation reserves | | - | - | - |
| Reserves from revaluation of foreign activtie | (6 048) | (8 333) | (4 307) | (5 845) |
| Retained earnings | 181 733 | 235 504 | 134 836 | 163 353 |
| | - | - | - | - |
| **Total equity** | 265 677 | 317 163 | 220 479 | 247 458 |
| | - | - | - | - |
| **Total liabilities and equity** | 1 087 501 | 1 387 750 | 1 029 984 | 1 309 017 |

| | Consolidated | | Standalone | |
|---|---|---|---|---|
| | 2020 | 2021 | 2019 | 2020 |
| Interest income | 188 486 | 217 849 | 164 702 | 190 080 |
| Interest expense | (9 660) | (13 466) | (9 580) | (13 377) |
| | - | - | - | - |
| **Net interest income** | 178 826 | 204 383 | 155 122 | 176 703 |
| | - | - | - | - |
| Fees and commissions income | 34 463 | 57 898 | 18 706 | 32 243 |
| Fees and commissions expense | (16 730) | (19 126) | (5 025) | (4 899) |
| | - | - | - | - |
| **Net fees and commissions expense** | 17 733 | 38 772 | 13 681 | 27 344 |
| | - | - | - | - |
| Net income from trading operations | (278) | (2 096) | (278) | (2 096) |
| Other operating income, net | (5 240) | (1 705) | (4 662) | 8 304 |
| | - | - | - | - |
| **Total operating income** | 191 041 | 239 354 | 163 863 | 210 255 |
| | - | - | - | - |
| Loss from impairment of financial assets | (45 347) | (51 333) | (40 880) | (38 255) |
| Loss from impairment of other assets | (473) | (214) | (342) | 13 |
| | - | - | - | - |
| **Net operating income** | 145 221 | 187 807 | 122 641 | 172 013 |
| | - | - | - | - |
| Staff costs | (60 586) | (73 540) | (37 252) | (45 439) |
| Amortization costs | (6 724) | (7 084) | (4 806) | (5 196) |
| Other expenses | (32 725) | (39 508) | (61 524) | (88 328) |
| | - | - | - | - |
| **Total operational expenses** | (100 035) | (120 132) | (103 582) | (138 963) |
| | - | - | - | - |
| **Earnings before tax** | 45 186 | 67 675 | 19 059 | 33 050 |
| | - | - | - | - |
| Tax expense | (6 551) | (13 904) | (2 798) | (4 533) |
| | - | - | - | - |
| **Net profit/loss** | 38 635 | 53 771 | 16 261 | 28 517 |

## IV. RISK MANAGEMENT ORGANIZATION IN TBI BANK EAD

### 1. Major risks impacting the performance, risk organization and management

The underlying risks related to TBI Bank EAD activity and the banking industry as a whole are as follows:

- Credit risk: current and potential risk to earnings and capital, resulting from debtor's failure to comply with the requirements of a contract concluded with the Bank, or from debtor's inability to act in observance of contractual terms and conditions.

- Concentration risk: as part of the credit risk, the concentration risk includes large exposures to individual customers with similar characteristics and counterpart groups, whose likelihood of defaulting depends on common factors, such as: industry, economy, geographical location, type of financial instruments.

- Residual risk: a subcategory of the credit risk – this is the risk that emerges when recognized risk measurement and reduction techniques, used by the Bank, prove less effective than expected.

- Settlement risk: the risk of not receiving cash or assets purchased from a counterpart under a certain transaction, in which the Bank has delivered the respective asset, or has provided the agreed upon cash funds.

- Liquidity risk: earnings' and capital's current or potential risk, arising from the Bank's inability to meet its obligations on maturity dates.

- Market risk: arising from adverse changes in exchange rates or prices of bonds, stocks or commodities in the commercial portfolio.

- Interest rate risk – the risk of posting a loss as a result of unfavorable change in interest rates' levels;

- Operational risk: operational risk is the risk of recording a loss as a result of inadequate or ineffective implementation of internal processes, of human actions, system operations or of external factors' impact. Operational risk also includes information technology risk that has arisen from inappropriate information technologies and processing, mainly in terms of management, access, integrity, control and continuity. It also covers legal risk, which is the risk of loss generated by unsuitable adherence to the law, to secondary legislation, instructions, recommendations, contracts, good banking practice, or ethical norms.

- Reputational risk: the current or probable risk to earnings and capital, emerging from the clients, counterparties, shareholders, investors and regulators having a negative view on the Bank's image.

- Strategic risk: the current or future risk to earnings and capital, arising from changes in business environment, unfavorable management decisions, improper implementation of approved solutions or the lack of responsiveness to fluctuations in the business milieu.

The Bank's management has developed a policy, integrated and applicable throughout the entire institution, on the assuming of risks, based on the good knowledge and management of threats, to which the Bank is exposed, and taking into account its own risk appetite and clear development strategy. Management and control of risks at TBI Bank EAD is explicitly defined in internal documents, policies and work rules, which secure adequate, timely and continuous identification, measurement and assessment, monitoring, reduction and reporting of risks, to which the institution is exposed through activities carried out at unit and organizational levels.

## 2. Structure and organization of risk management

Responsible for the management of Bank's overall risks in its transactions is above all the Management Board, which:

- sets goals in view of strategy outlined by the Supervisory Board
- establishes the infrastructure in terms of risks' assessment and management
- has objectives related to the risk profile and
- implements the the risk management policy

The Risk function in the Bank is overseen by an Executive Director (Chief Risk Officer) who is elected by the Supervisory Board and is independent from the business functions. The departments and managers within reporting to the CRO are:


In accordance with Ordinance 10 of BNB the Supervisory Board, in its capacity of Risk Committee has overall responsibility for the establishment and oversight of the TBI Group's risk management framework. Its main role is to define the risk appetite based on the Group strategy and assists the Management Board and the Supervisory Board in overseeing the implementation of that strategy by the senior management. Other committees, namely the Asset and Liability Committee (ALCO), Credit Committee, Retail Banking Committee, Impairments Committee etc., are responsible for the practical implementation of the general framework in compliance with the good banking practices. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The TBI Bank Group, through its management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The organization and definition of risk management competencies at TBI Bank EAD support the principles of certainty, consistency, communication and cooperation, which have been designed to prevent conflicts of interest and to ensure a transparent and documented process of decision taking. TBI Bank EAD has functioning an Audit Committee, which also plays an important role in the risk management process. The main functions of Audit Committee include monitoring of efficiency of internal processes and systems, review on the independent financial audit and makes recommendations making recommendations for improvement of the activities with identified weaknesses. or.

The Bank's Management Board and its Committees/Commissions may, in line with their powers, assign certain risk management operational duties to lower management units. The commissions, committees and work groups set up by the Bank include administrators that are related to the risk management through regular meetings, results analysis, etc:

- ALCO is responsible for the overall review of the Bank's activities regarding the positions in the assets and liabilities. It monitors interest rates and liquidity in accordance with its competence and the committee's organizational structure stipulated in the institution's internal rules;
- The Credit Granting Commission (Credit Committee) is a body, which has the power to approve the emergence of risk exposure to business (SME) clients. Credit exposures based on preset limits are subject to subsequent approval by the Management Board and/or confirmed by the Supervisory Financial Committee or the Supervisory Board.
- Retail Banking Committee approves parameters and risk characteristics of products for retail segment.
- The Committee for clasification and impairment of financial assests is a specialized internal body for the evaluation and classification of risk exposures under the Bulgarian legislation.
- Operational Risk Committee is responsible for monitorig and managing operational risk.
- Specialized Unit for the prevention of money laundering and financing of terrorism as well as compliance risk;

The overall monitoring and risk management system is applicable to the Bank and its branches, as well as to all subsidiaries. The main rules governing the risk strategy, the applicable limits, the operational risk policy and the measures to be taken in case of unforeseen events are developed for all entities in the consolidation group.

The Bank departments involved in the process of risk management aim to optimize the risk profile of the portfolios managed by them in any of the risk categories defined herein above. Their main tasks are linked to the development, definition and implementation of tools and methodologies for the analysis of risks that accompany the activities performed by the institution. The most important duties and responsibilities exercised by the various risk management departments are as follows:

- Preparation and monitoring of compliance with the respective risk management policy;
- Development, establishment and implementation of methods and processes for risk management;
- They make sure the risk management standards, policy and methodology are followed by all business units and departments;
- They are in charge of determining and observing the limits set for the different business units, as well as for the approval of restrictions imposed by the competent authorities;
- They actively participate in the process of new products' endorsement;

- They provide opinions and suggestions on specific business solutions and their related risks;
- They perform active risk management (portfolio management, reduction of risk, diversification and analysis of risk portfolio) subject to the institution's pre-defined risk appetite ;
- They carry out regular monitoring and reporting of the Bank's risk profile;

### 3. TBI Bank EAD risk strategy and appetite

Risk appetite framework approved by the competent collective bodies of the Bank, sets the Bank's planned business structure and strategic development from risk's point of view and in coordination with the institution's set strategic goals. It defines specific risk KPIs, creates a general acceptance of the objectives in the management of banking risks and presents a basis for the management and control of risk.

The parameters of risk appetite are determined during the annual budgeting process, and they are approved by TBI Bank EAD management bodies and the relevant expert commissions/committees of the Bank. Risk appetite sets the amount of risk the Bank is willing to take (assets' size, risk-weighted assets, volume of external financing), as well as the amount of available venture capital (owner's equity, provisions for credit losses, profit). The budget also determines the portion of available venture capital, which the institution is ready to allocate to cover quantifiable risks (risk buffers, capital ratios). This venture capital is then distributed among the business lines within the organization and monitored on monthly basis.

The risk appetite quantitative parameters, determined in a clear and consistent way (size of the capital and amount of established impairments), as well as the qualitative aspects of risk appetite, set by strategic orientations, business plans, and internal policies and regulations related to risk management, are important input data in the management and planning of the Bank's capital.

### A. Credit risk

In order to manage the credit risk, the Bank has developed reliable procedures for analysis and assessment of potential borrowers, including scoring techniques and detailed verification of submitted data. According to the Bank's internal rules, it performs a preliminary analysis and a subsequent monthly industry-by-industry monitoring for the presence of related parties' concentration.

Credit risk includes sub-categories that are monitored and managed by TBI Bank EAD, and its terms, procedure and tracking are regulated by the Bank's internal policies, namely:

a) Default risk – it is defined as the borrower not being capable of performing on his contractual financial duties due to an emerging default manifested as non-payment or compulsory change of contractually agreed payments on the part of the borrower. The economic loss in the case of default is dependent on several factors, which include product type, subordination, existence of guarantees, collateral value, etc.

b) Concentration risk –this is the risk of loss in the case of excessive exposure to individual objects, group of related parties, or groups of borrowers with similar business characteristics or belonging to similar industries. In retail banking, risk concentrations can be differentiated by product type, common product characteristics, and other homogeneous characteristics of the natural persons.

In order for the concentration risk to be controlled, the Bank observes the following internal limits:

Limits applicable to customers other than banks:

- Total exposure to a client or a group of related parties should not exceed the regulatory authorized and internally approved limit of 25% of the Bank's capital base;
- All large exposures exceeding 10% of T1 of the Capital Base are subject to approval by the MB

**In 2021 the Bank has not violated the applied limits.**

| Loans granted to customers BGN `000 | 2021 | 2020 |
|---|---|---|
| Bank loans extended to: | | |
| Corporate clients | 179 907 | 140 924 |
| Natural persons | 877 089 | 651 348 |
| Employees | 1 568 | 1 503 |
| **Total loans granted to custo** | **1 058 564** | **793 775** |
| Provisions for impairment los | (101 535) | (102 890) |
| **Total net loans granted to c** | **957 029** | **690 885** |

The structure of the credit portfolio by industries in thousand BGN as of 31.12.2021 is as follows:

| Economic sector | 2021 | | 2020 | |
|---|---|---|---|---|
| BGN `000 | Balance value | % | Balance value | % |
| Construction and Real Estate | 100 605 | 9,50% | 68 562 | 8,64% |
| Services | 20 306 | 1,92% | 20 454 | 2,58% |
| Commerce | 19 867 | 1,88% | 16 200 | 2,04% |
| Tourism | 12 555 | 1,19% | 18 057 | 2,27% |
| Other financial institutions | 12 485 | 1,18% | 1 373 | 0,17% |
| Agriculture | 7 072 | 0,67% | 9 246 | 1,16% |
| Manufacturing | 7 017 | 0,66% | 7 032 | 0,89% |
| Natural persons | 877 089 | 82,86% | 651 354 | 82,06% |
| Employees | 1 568 | 0,15% | 1 503 | 0,19% |
| **Total loans extended to customers** | **1 058 564** | **100,00%** | **793 781** | **100,00%** |

The inter-bank limits conform to the individual limits approved by the Bank's management, and comply with applicable legislation.

Concentration risk may exist with issuers of collaterals, suppliers of credit protection with guarantees, or with basic assets. These cases are analyzed and evaluated so that regulatory and internal requirements are not exceeded.

Credit risk management at TBI Bank EAD is implemented at two levels - individual client and credit portfolio:

A. Individual customers' ranking is based on the assessment and evaluation of their ability to fulfill their obligations to the Bank at maturity date, and it is conducted in accordance with at least the following:

- Customer's business background;
- Industry analyses – the development of this particular sector over the last periods; trends and others. TBI Bank EAD classifies the economic sectors as preferred ones (agriculture, commerce, manufacturing, services); non-preferred ones (construction, hotels and restaurants) and forbidden ones (e.g. firearms, illegal activities, etc.);
- Information about related parties/persons – group risk exposure;
- Total exposure of borrower's group of related persons, percentage of total exposure of Bank's capital base, as well as classification group;
- Financial analyses of the borrower – turnover, assets' and liabilities' structure, debt ratio, etc.;
- The ability of the borrower to generate sufficient cash flow for the regular performance of his obligations towards the Bank and his future partners;
- Customers' performance on their obligations to the Bank and other creditors in the past;
- Checking the loan applicant, his owners, management and related persons in the Commercial Register, Central Loan Register, Property Register, etc.;
- Client's position as employer in the National Revenue Agency;
- Follow-up of customer's record in TBI Bank EAD;
- Information about submitted documents;
- Customer's market position in terms of market share and competition, additional deliveries, elasticity of requirements, payment terms applicable to sales and purchases, etc.
- Customer's relationship with the Bank and fulfillment of duties towards all business partners in the past;
- Collateral - type, quality, liquidity, depreciation, location, etc.
- Collateral's ratio;
- Fraud combat at request level – non-compliance or inaccurate information supplied by the client;
- Checking the Bank' blacklist;
- Customer assessment made by the Bank's risk-analyst.

Credit risk management also includes a follow-up assessment of all customers and credit limits, in which each of the elements described above is reviewed at least once a year.

In order to manage the credit risk, the Bank has established approval levels. Loans are submitted for approval to the respective level or levels depending on the general exposure (present or future one). The exposure to each client/loan applicant, including banks and intermediaries, is further restricted by sub-limits (covering balance exposures, conditional liabilities and irrevocable commitment) Exposure to credit risk is managed through a continuous analysis of the ability of borrowers and/or potential borrowers to meet their obligations, and, if appropriate, through a change in the credit limits.

In connection with the introduction of IFRS 9, the Bank's risk exposures are classified into three groups based on the following criteria for the level of credit risk:

**Stage 1 exposures classification**

The main determinant of Stage 1 vs Stage 2 is whether there has been "a significant increase in credit risk since initial recognition" and the main difference is the use of 12month vs Lifetime ECLs (respectively). The information to be used for the assessments above must be reliable and available (in a consistent form) not only at the reporting date but also for the initial loan inception date. This assessment process is based on historical information (qualitative and quantitative), as well as forecast for future financial performance of the borrower. The analysis also includes potential support by the co-borrowers or parent company/shareholders of the entity.

The following criteria are assessed:

- Whether an increase in credit risk has occurred and
- Whether this increase is "significant" and will result in loss for the Bank

The following criteria will be met simultaneously for exposures that fall under the Stage 1 classification:

- Exposures with up to 30 Days past due
- Exposures with no evidence for financial distress
- Exposures that are not determined as forborne

Stage 1 risk exposures are exposures which are regularly serviced and information on the borrower's financial state gives no ground to assume that the borrower will not repay in full his debts.

**Stage 2 exposures classification**

The following criteria will be met simultaneously for exposures that fall under the Stage 2 classification:

- Exposures with 31-90 Days past due
- Exposures with no evidence for financial distress
- Exposures that are determined as forborne in accord with par. 163 of COMMISSION IMPLEMENTING REGULATION (EU) 2015/1278 of 9 July 2015 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions as regards instructions, templates and definitions.

- Forborne exposure where either of the following conditions is met:
  - ✓ that extension has not led the exposure to be classified as non-performing;
  - ✓ the exposure was not considered to be a non-performing exposure at the date the forbearance measures were extended.

Balance sheet exposures, which have arisen from the execution of off-balance sheet commitments are classified at least as Stage 2 exposures.

**Stage 3 exposures classification**

Risk exposures, where significant weaknesses exist with respect to their servicing or there is a serious deterioration in the borrower's financial state, which may question the full repayment of the obligation.

Any of the following criteria must be met for exposures that fall under the Stage 3 classification:

- There are accumulated late payments of both principal and interest that are more than 90 days overdue;
- The approved materiality threshold is:
- - for exposures to individuals - BGN 5 or the equivalent in another currency;
- - for exposures to legal entities - BGN 100 or the equivalent in another currency.
- The debtor's financial condition has seriously deteriorated and could jeopardize his ability to repay his debts;
- Restructuring measures have been implemented, in accordance with the provisions of Commission Implementing Regulation (EU) 2015/1278 of July 9, 2015 amending Implementing Regulation (EU) No. 680/2014 to determine the technical implementation standards regarding of the provision of information by institutions to supervisory authorities in relation to instructions, templates and definitions for classifying non-performing exposures with restructuring measures.
- The debtor experiences a constant shortage of cash;
- The debtor has been declared bankrupt or is in the process of liquidation and there is a risk that the creditors will remain unsatisfied;
- A claim that is included as a line item in the balance sheet is the subject of legal proceedings or has been awarded to the Bank by the court, but has not been collected;

Other circumstances leading to the conclusion that there is a possibility that the risk exposure will not be paid.

The division of the credit portfolio into working (less than 90 days overdue) and non-working (more than 90 days overdue) in accordance with the FINREP report is as follows:

| As of 31.12.2021 | Not overdue and not impaired | Overdue, but not impaired | Individually impaired | Gross value |
|---|---|---|---|---|
| Stage 1 | 806 812 | 83 662 | 13 100 | 903 574 |
| Stage 2 | 7 218 | 33 934 | 801 | 41 953 |
| Stage 3 | 4 466 | 101 733 | 6 838 | 113 037 |
| **Gross value** | **818 496** | **219 329** | **20 739** | **1 058 564** |
| Impairments | (22 025) | (76 788) | (2 722) | (101 535) |
| **Net book value** | 796 471 | 142 541 | 18 017 | 957 029 |

**Loans to customers**

| As of 31.12.2020 | Not overdue and not impaired | Overdue, but not impaired | Individually impaired | Gross value |
|---|---|---|---|---|
| Stage 1 | 540 542 | 69 601 | 2 735 | 612 878 |
| Stage 2 | 14 023 | 40 216 | 1 511 | 55 750 |
| Stage 3 | 3 307 | 112 564 | 9 276 | 125 147 |
| **Gross value** | **557 872** | **222 381** | **13 522** | **793 775** |
| Impairments | (15 615) | (81 908) | (5 367) | (102 890) |
| **Net book value** | 542 257 | 140 473 | 8 155 | 690 885 |

**Financial leasing**

| As of 31.12.2021 | Not overdue and not impaired | Overdue, but not impaired | Individually impaired | Gross value |
|---|---|---|---|---|
| Stage 1 | 839 | 52 | – | 891 |
| Stage 2 | 88 | 2 | 2 | 92 |
| Stage 3 | 2 | 3 788 | 832 | 4 622 |
| **Gross value** | **929** | **3 842** | **834** | **5 605** |
| Impairments | (4) | (24) | (437) | (465) |
| **Net book value** | 925 | 3 818 | 397 | 5 140 |

**Financial leasing**

| As of 31.12.2020 | Not overdue and not impaired | Overdue, but not impaired | Individually impaired | Gross value |
|---|---|---|---|---|
| Stage 1 | 1 807 | 134 | - | 1 941 |
| Stage 2 | 27 | 90 | 81 | 198 |
| Stage 3 | 2 | 7 069 | 1 004 | 8 075 |
| **Gross value** | **1 836** | **7 293** | **1 085** | **10 214** |
| Impairments | (4) | (30) | (559) | (593) |
| **Net book value** | 1 832 | 7 263 | 526 | 9 621 |

As shown in the table above, the distribution of the loan portfolio of the bank is 89% to 11% in favor of the working portfolio. Currently, all necessary legal measures for the collection of the legacy portfolio have been taken.

The total amount of provisions for impairment losses on loans and advances is BGN 102 000 thousand (2020: BGN 103 489 thousand). Accrued provisions for individually assessed financial assets amount to BGN 3 159 thousand (2020: BGN 5 926 thousand), and accrued provisions based on collective impairment amount to BGN 98 841 thousand (2020: 97 563 thousand BGN).

The consumer loans' portfolio, which represents 83.03% (2020: 80.23%) of all the receivables that are neither overdue, nor impaired, is highly diversified in terms of both number and amount. It consists of a large number of small exposures, without any geographical and industry concentrations, and is characterized by historically proven high collection. The loans provided to corporate clients include mainly small and medium-sized enterprises with acceptable credit quality and within the risk appetite of the Group. These loans are secured mainly by mortgages.

| Portfolio quality | Gross balance sheet nominal amount | | | Impairments, accumulated negative change in fair value due to credit risk | | |
|---|---|---|---|---|---|---|
| | | Performing | Non-performing | | Performing | Non-performing |
| **Loans and advances** | 1 076 755 | 959 097 | 117 658 | (102 012) | (39 342) | (62 670) |
| central banks | - | - | - | - | - | - |
| government | - | - | - | - | - | - |
| institutions | 12 590 | 12 590 | - | (16) | (16) | - |
| other financial institutions | 12 485 | 12 485 | - | (128) | (128) | - |
| non-financial legal entities | 173 027 | 143 018 | 30 009 | (7 116) | (1 378) | (5 738) |
| incl: SME | 173 027 | 143 018 | 30 009 | (7 116) | (1 378) | (5 738) |
| incl: Loans with commercial real estate collaterals | 81 301 | 63 910 | 17 391 | (1 764) | (8) | (1 756) |
| households | 878 653 | 791 004 | 87 649 | (94 752) | (37 820) | (56 932) |
| incl: Mortgage loans | 21 | 21 | - | - | - | - |
| incl: Consumer loans | 878 632 | 790 983 | 87 649 | (94 752) | (37 820) | (56 932) |
| **Debt financial instruments at amortised cost** | 1 288 688 | 1 171 030 | 117 658 | (102 012) | (39 342) | (62 670) |
| **Financial instruments through OCI** | 107 978 | 107 978 | - | - | - | - |
| **Off-balance exposures** | 104 051 | 103 700 | 351 | - | - | - |

Gross book value of loans and accumulated impairments by economic sector (excluding individuals):

| Loans to non-financial legal entities by economic sector | Gross balance sheet exposure | Impairments |
|---|---|---|
| A. AGRICULTURE, FORESTRY AND FISHING | 7 115 | (642) |
| B. MINING AND QUARRYING | 342 | (17) |
| C. MANUFACTURING | 6 688 | (545) |
| D. PRODUCTION AND DISTRIBUTION OF ELECTRICITY, HEAT AND GASEOUS FUELS | 74 | (1) |
| E. WATER SUPPLY | 658 | (80) |
| F. CONSTRUCTION | 7 910 | (655) |
| G. WHOLESALE AND RETAIL TRADE | 20 521 | (1 876) |
| H. TRANSPORTATION AND STORAGE | 8 515 | (929) |
| I. ACCOMMODATION AND FOOD SERVICE ACTIVITIES | 16 454 | (371) |
| J. INFORMATION AND COMMUNICATION | 1 094 | (71) |
| K. FINANCIAL AND INSURANCE ACTIVITIES | - | - |
| L. REAL ESTATE OPERATIONS | 92 942 | (1 392) |
| M. PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES | 4 304 | (215) |
| N. ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES | 3 830 | (139) |
| O. PUBLIC ADMINISTRATION AND DEFENSE; COMPULSORY SOCIAL SECURITY | - | - |
| P. EDUCATION | 154 | (7) |
| Q. HUMAN HEALTH AND SOCIAL WORK ACTIVITIES | 1 298 | (22) |
| R. ARTS, ENTERTAINMENT AND RECREATION | 492 | (106) |
| T. OTHER SERVICES | 636 | (48) |
| **TOTAL LOANS AND ADVANCES** | **173 027** | **(7 116)** |

The changes in impairments on loans granted are as follows:

| Impairments | As of 01.01.2021 | Changes in impairments | Decrease due to write offs | Other corrections | As of 31.12.2021 |
|---|---|---|---|---|---|
| **Stage 1** | **(18 368)** | **(9 749)** | **45** | **174** | **(27 898)** |
| Legal entities | (932) | 34 | - | 87 | (811) |
| Individuals | (17 436) | (9 783) | 45 | 87 | (27 087) |
| *incl.: collectively assessed* | (18 239) | (9 725) | 45 | 171 | (27 748) |
| *incl.: individually assessed* | (129) | (24) | - | 3 | (150) |
| **Stage 2** | **(11 154)** | **(361)** | **18** | **53** | **(11 444)** |
| Legal entities | (1 269) | 530 | - | 28 | (711) |
| Individuals | (9 885) | (891) | 18 | 25 | (10 733) |
| *incl.: collectively assessed* | (10 654) | (700) | 17 | 43 | (11 294) |
| *incl.: individually assessed* | (500) | 339 | 1 | 10 | (150) |
| **Stage 3** | **(74 268)** | **(62 400)** | **73 185** | **813** | **(62 670)** |
| Legal entities | (7 969) | (2 541) | 4 532 | 240 | (5 738) |
| Individuals | (66 299) | (59 859) | 68 653 | 573 | (56 932) |
| *incl.: collectively assessed* | (68 947) | (62 370) | 70 774 | 749 | (59 794) |
| *incl.: individually assessed* | (5 321) | (30) | 2 411 | 64 | (2 876) |
| **Total impairments** | **(103 790)** | **(72 510)** | **73 248** | **1 040** | **(102 012)** |

In order to effectively manage credit risk, the Group performs renegotiation, restructuring and writing-off of existing risk exposures.

As of December 31, 2021, debt securities consist of corporate and government bonds and are denominated in EUR and USD. Debt securities are stated at fair value based on quoted market prices at the reporting date.

| Financial assets at fair value through OCI | 2021 | 2020 |
|---|---|---|
| **Government debt securities traded in an official market** | | |
| Government securities Bulgaria | 50 514 | 41 050 |
| Government securities Romania | 21 055 | 25 991 |
| Government securities Croatia | 9 013 | 9 296 |
| Government securities Montenegro | 2 714 | 7 914 |
| Government securities Serbia | 4 244 | 4 785 |
| Government securities Turkey | 6 039 | – |
| **Total** | **93 579** | **89 036** |
| **Other debt securities traded in an official market** | | |
| Financial institutions | 13 652 | 50 449 |
| Non-financial companies | 747 | 11 160 |
| **Total** | **14 399** | **61 609** |
| Equity securities not traded in an official market | 92 | 92 |
| Equity securities traded in an official market | – | 2 433 |
| **Total** | **92** | **2 525** |
| **Total financial assets at fair value through OCI** | **108 070** | **153 170** |

### Techniques for credit risk mitigation

The Bank employs a number of policies and practices that limit the credit risk. For all loans other than consumer loans for individuals, the Bank requires that the borrowers provide collaterals. The main types of collaterals are as follows:

- cash funds in BGN and foreign currency;
- mortgages on real estate;
- pledges on business assets, such as machinery and/or equipment;
- guarantees issued in favor of the Bank.

The values are reviewed regularly so as to ensure adequacy of the respective assessment. Taking into account the specificity of the commercial activity performed by the Bank and the growing portfolio of small consumer loans, the share of unsecured loans in the Bank's portfolio is increasing. These loans are mainly short-term with very low individual limits and therefore the provision of collateral is considered a complex and costly process. The funds allocated to other banks are also not secured.

B) Credit risk management at loan portfolio level

TBI Bank EAD portfolio is controlled on a monthly basis, which includes tracking of the following:

- Classification and rating of clients and projects;
- Concentration by industries and countries;
- Provisions and classification;
- Currency (EUR, RON, etc.)

In addition to individual clients, the departments in charge of managing the Bank's risk regularly monitor the entire credit portfolio (balance sheet and off-balance sheet assets risk) and analyze the exposures (depending on risk, segmentation, concentration of elements, risk exposure levels for certain clients, manufacturing, geographical distribution, etc.). All the changes in the loan portfolio are analyzed, and based on the analyses of the time periods, there are established trends in movements, concentrations and risk. The responsible Bank administrators, departments, commissions and committees follow the "front office" principle of separating the management of credit risk from the back office (thus avoiding conflict of interests.

The amount of loan portfolio devaluations is calculated every month and in compliance with international financial reporting standards and internal policies, rules and procedures, TBI Bank EAD allocates an adequate level of provisions for losses generated by credit risk.

Next table shows the Bank's exposure to credit risk as of 31st of December 2021 and 31st of December 2020, in thousand BGN, without taking into consideration collaterals, i.e. the worst case scenario. For the balance sheet assets the exposures are based on the net balance values as of the date of the balance sheet.

| **Loans granted to customers** | | |
|---|---|---|
| **BGN `000** | **2021** | **2020** |
| Secured by Real estate | 125 567 | 100 971 |
| Secured by Cash collaterals | 40 | 58 |
| Secured by Other collaterals | 6 169 | 5 702 |
| Unsecured loans | 926 788 | 687 050 |
| **Total loans granted to customers** | **1 058 564** | **793 781** |

The maximum exposure to credit risk is as follows:

| Maximum exposure to credit risk | As of 31st of December | |
|---|---|---|
| BGN `000 | 2021 | 2020 |
| Cash funds deposited to accounts opened in other banks | 208 230 | 131 874 |
| Funds granted to other banks | 33 066 | 20 062 |
| Derivatives | 5 566 | 2 145 |
| Loans extended to enterprises | 173 128 | 131 422 |
| Loans extended to individuala | 783 901 | 559 463 |
| Financial leasing | 5 140 | 9 621 |
| Securities measures through profit and loss | – | 4 940 |
| Financial assets through OCI | 108 070 | 153 170 |
| Other receivables | 18 766 | 12 742 |
| Exposures to credit risk associated with conditional passive and irrevocable commitm | - | - |
| Financial guarantees | 471 | 897 |
| Unutilized loan commitments | 103 658 | 69 722 |
| **Total maximum exposure** | **1 439 996** | **1 096 058** |

Guarantees and letters of credit, representing an irrevocable commitment on the part of the Bank to make a required payment in the event of the customer not performing on his obligation towards a third party, carry the same risk as the one generated by loans.

The commitments for the granting of credits represent the unused portion of the authorized amount of loans. The Bank controls the maturity period of the credit commitments, since in most cases the long-term commitments carry a larger credit risk, as compared to the short-term ones. Under Loan agreements provisions, the Bank has the right not to allow disbursement of loans without advance notice.

**Use of credit ratings by credit ratings agencies**

Included in the following table is an analysis and classification of the funds granted to other banks as of 31st of December, 2021, made under criteria provided by a rating agency on the basis of credit ratings from a recognized external institution. The ratings used in the table are the ones of *Standard and Poor's* or their equivalents:

| Use of external ratings 31.12.2021 | | |
|---|---|---|
| Rating | Financial assets through OCI | Funds available to other banks |
| **Moody's** | | |
| A | - | 13 788 |
| Baa | 71 569 | 4 364 |
| Ba | 13 257 | - |
| B | 12 148 | 34 |
| **Fitch** | | |
| BBB | - | 2999 |
| BB | 1 143 | 814 |
| B | 6 786 | 642 |
| **BCRA** | | |
| BBB | - | 10 425 |
| BB | - | - |
| **S&P** | | |
| A | 361 | - |
| BB | - | - |
| B | 2714 | - |
| No rating | 92 | - |
| Total | 108 070 | 33 066 |

| Use of external ratings 31.12.2020 | | |
|---|---|---|
| Rating | Financial assets through OCI | Funds available to other banks |
| **Moody's** | | |
| A | 1 464 | 6 050 |
| Baa | 70 738 | 1 659 |
| Ba | 5 854 | - |
| B | 27 126 | 38 |
| **Fitch** | | |
| BBB | 2 930 | 506 |
| BB | 21 054 | 657 |
| B | 8 064 | 96 |
| **BCRA** | | |
| BBB | - | 11 056 |
| BB | - | - |
| **S&P** | | |
| A | 9 265 | - |
| BB | 3 297 | - |
| B | 853 | - |
| No rating | 2 525 | - |
| Total | 153 170 | 20 062 |

According to the International Financial Reporting Standards, the Bank's Impairment Committee sets impairment and provisions for financial assets held until maturity, which are valued at amortized cost, as well as for certain commitments taken on off-balance elements, where the credit risk is similar to the one of the usual credit relationship.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are determined on the basis of agreed cash flows related to Bank's assets and the historical record for losses generated by assets with credit risk characteristics similar to the ones of the Bank. The loss assessment based on historical record is adjusted as per current data in order to reflect the influence of present conditions, which had not impacted the period in which the loss assessment had been made, as well as to eliminate the effect of circumstances during the historical period that are no longer existent.

a) The securitization risk is a sub-category of the credit risk, and it consists of a financial instrument, which represents securitization for the achievement of liquidity with the same instrument. Since the Bank does not perform securitization transactions, this risk is not considered a major one.
b) Country risk – this is the risk suffered by international counterparties in the case of economic, social, and political events taking place in debtor's country. It has a subcategory, in which the risk is transferred, when debtor's liabilities are not denominated in local currency.

**Unencumbered assets**

As at 31 December 2021, the Group has pledged deposits with foreign and domestic banks against the concluded derivatives (currency swaps), representing transactions for economic hedge of the open currency risk. The Group may not dispose of the collateral provided before the expiry of the economic hedge agreement. The other pledged assets represent a guarantee deposit in favor of MasterCard.

### B. Liquidity risk

Liquidity is the ability of the Bank to fund increases in assets and meet its obligations as they come due. The liquidity risk from other side is the risk of loss arising from lack of cash or equivalents or more specifically, the risk of loss arising from an inability to obtain funding at economically reasonable levels, or sell an asset at carrying price, in order to cover an expected or unexpected obligations.

The management of liquidity risk in the Bank pursues the following objectives stipulated in the respective internal rules:

- Provision of sufficient liquidity for the settlement of all of the Bank's obligations;
- Optimization of liquid reserves' balance;
- Avoiding situations, in which the Bank would be forced to provide necessary liquidity at prices that are significantly higher than the market ones.

The Management Board and Assets and Liabilities Committee define the strategy for liquidity management. ALCO also is the primary unit in charge. The operational management and planning of the daily liquidity and the implementation of the decisions adopted by the ALCO is assigned to the Head of the Treasury and Financial Markets Department who controls and oversees the liquidity risk. His main responsibilities include:

- Identifies measures and determines the authorities to provide liquidity;
- Organizationally distinguishes the monitoring of the structural liquidity from its management;
- Reports on the liquidity indicators to the Committee for Management of Assets and Liabilities on a monthly basis;
- Controls the accuracy and integrity of the daily data used in the monitoring of exposures (compares the current data with data from past periods and performs other type of logical and independent supervisory activities);
- Ensures the compliance with the statutory requirements regarding liquidity;
- Provides liquidity reserves at the appropriate level;
- Regularly reviews and, if necessary, brings the documents in compliance with the instructions for liquidity risk management at the Bank;
- The indicators of structural liquidity are subject to systematic reporting to the Management Board and the Supervisory Board.

For cases of exceptional circumstances, TBI Bank EAD has developed a "Recovery Plan", which serves as guidelines and action schedule for the identification of problems, the search of solutions, the implementation of activities under emergency situations and the creation of liquidity management system in the Bank, thus securing liquidity maintenance and protection of customers' and shareholders' business interests. This plan defines the fundamentals for its activation, as well as the competencies and responsibilities of the Management Board, the task group for the monitoring of the Bank's liquidity position and the relevant organizational units of the institution. The plan explicitly statess the reasons for its activation, i.e. business conditions that could not be considered as normal according to different criteria. Changes in the Bank's transactions and liquidity position could be the result of both internal and external factors. The plan applicable to emergency situations also establishes the methods for liquidity management under unusual circumstances. These methods should observe the principles of liquidity risk management in a normal environment and the results from the testing of the Bank's liquidity management in stress situations, as well as the system for reporting and communication with internal and external public regulators.

TBI Bank EAD features a well-diversified customer portfolio. The strategy employed, aimed at strong lending to individuals, justifies the credit portfolio's considerable growth. Newly attracted resources are characterized by lower price, and accordingly, profitability remains stable. It is very important for the liquidity to be kept at firm levels. Despite the expansion of the Bank's activity and the sharp rise of its lending business, over the years it has succeeded in retaining high levels of liquidity:

| Liquidity Ratio | 2021 | 2020 | 2019 |
|---|---|---|---|
| | 33.40 | 33.30 | 30.50 |

The key indicator employed under the current and applicable policy for the measurement and management of liquidity is the liquidity assets ratio. At the end of 2021, this ratio is 33.4 % (33.3 % in 2020), which speaks of a stable cash flow, higher than the minimum threshold required (28 % proportion between liquid assets and deposits) and shows availability of stable cash flow.

Next table shows Bank's financial liabilities, allocated to the respective maturity groups on the basis of the remaining period from the balance date to the contractual maturity date. Loans to customers with a residual maturity of more than five years are listed in the "Undefined" column.

| A&L maturity structure As of 31st of December 2021 | At sight / up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Undefined | Total |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Cash and cash in accounts opened in central banks | 208 230 | – | – | – | – | – | 208 230 |
| Funds provided to other banks | 22 241 | 1 956 | – | – | 8 869 | – | 33 066 |
| Derivatives | 70 | 54 | 5 311 | 70 | 61 | – | 5 566 |
| Financial assets through profit and loss | – | – | – | – | – | – | – |
| Financial assets through OCI | – | 867 | 1 260 | 71 152 | 34 699 | 92 | 108 070 |
| Loans extended to customers | 133 790 | 58 787 | 230 118 | 533 485 | 849 | – | 957 029 |
| Financial leasing | - | 2 341 | 750 | 2 010 | 39 | – | 5 140 |
| Other assets | 18 513 | 503 | 939 | 352 | – | – | 20 307 |
| Current tax assets | 219 | – | – | – | – | – | 219 |
| Intangible assets | – | – | – | – | – | 16 672 | 16 672 |
| Tangible assets | – | – | – | – | – | 23 574 | 23 574 |
| Deferred tax assets | – | – | 990 | – | – | - | 990 |
| Repossessed assets | – | – | – | – | – | 8 887 | 8 887 |
| **Total assets** | **383 063** | **64 508** | **239 368** | **607 069** | **44 517** | **49 225** | **1 387 750** |
| Liabilities | | | | | | | |
| Borrowed funds from other banks | 13 042 | – | – | – | – | 0 | 13 042 |
| Current tax liabilities | – | – | 3885 | – | – | 0 | 3 885 |
| Derivatives | 821 | 138 | 5 091 | – | – | 0 | 6 050 |
| Funds attracted from clients | 235 641 | 109 797 | 435 216 | 175 060 | – | 0 | 955 714 |
| Other liabilities | 27 174 | 28 579 | 6 887 | 5 | – | 0 | 62 645 |
| Lease liabilities | | | | | | | |
| Subordinated debt | – | – | – | – | 19829 | 0 | 19 829 |
| **Total liabilities** | **276 678** | **138 954** | **452 362** | **182 764** | **19 829** | - | **1 070 587** |
| Net difference in liquidity | 106 385 | (74 446) | (212 994) | 424 305 | 24 688 | 49 225 | 317 163 |
| **Cumulative cash flows** | **106 385** | **31 939** | **(181 055)** | **243 250** | **267 938** | **317 163** | |

| A&L maturity structure As of 31st of December 2020 | At sight / up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Undefined | Total |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Cash and cash in accounts opened in central banks | 147 345 | – | – | – | – | – | 147 345 |
| Funds provided to other banks | 8 907 | – | 11 155 | – | – | – | 20 062 |
| Derivatives | – | 126 | 2 019 | – | – | – | 2 145 |
| Financial assets through profit and loss | – | – | – | 4 940 | – | – | 4 940 |
| Financial assets through OCI | 267 | 2 795 | 15 412 | 67 412 | 64 759 | 2 525 | 153 170 |
| Loans extended to customers | 83 268 | 45 548 | 153 202 | 408 690 | 177 | – | 690 885 |
| Financial leasing | 4 863 | 195 | 1 618 | 2 808 | 137 | – | 9 621 |
| Other assets | 10 462 | 3 829 | 623 | 484 | – | – | 15 398 |
| Current tax assets | 2 201 | – | – | – | – | – | 2 201 |
| Intangible assets | – | – | – | – | – | 12 834 | 12 834 |
| Tangible assets | – | – | – | – | – | 20 640 | 20 640 |
| Deferred tax assets | 865 | – | – | – | – | – | 865 |
| Repossessed assets | – | – | – | – | – | 7 395 | 7 395 |
| **Total assets** | **258 178** | **52 493** | **184 029** | **484 334** | **65 073** | **43 394** | **1 087 501** |
| Liabilities | | | | | | | |
| Borrowed funds from other banks | 31 339 | – | – | – | – | – | 31 339 |
| Current tax liabilities | 1 341 | – | – | – | – | – | 1 341 |
| Derivatives | 369 | 1 569 | 2 494 | – | – | – | 4 432 |
| Funds attracted from clients | 147 125 | 111 292 | 300 204 | 174 570 | – | – | 733 191 |
| Other liabilities | 24 591 | 18 254 | 1 122 | 5 | – | – | 43 972 |
| Other attracted funds | 150 | 299 | 1 347 | 5 753 | – | – | 7 549 |
| **Total liabilities** | **204 915** | **131 414** | **305 167** | **180 328** | - | - | **821 824** |
| Net difference in liquidity | 53 263 | (78 921) | (121 138) | 304 006 | 65 073 | 43 394 | 265 677 |
| **Cumulative cash flows** | **53 263** | **(25 658)** | **(146 796)** | **157 210** | **222 283** | **265 677** | |

The Bank strives to maintain a positive balance in terms of its assets and liabilities. Attention should be paid to the fact that most of the liabilities representing term deposits of individuals and legal entities are renewed at maturity and remain a stable source of funding for the Bank.

TBI Bank EAD established business model is mainly characterized by financing from retail deposits, considered as one of the most reliable sources of financing, taking into account the existence of guarantee plans for customers' savings.

**Funds attracted from customers**

| | 2021 | 2020 |
|---|---|---|
| Corporates | | |
| - current accounts | 56 066 | 35 002 |
| - term deposits | 45 690 | 30 408 |
| Individuals | | |
| - current accounts | 96 190 | 64 798 |
| - term deposits | 757 768 | 602 983 |
| **Total funds attracted from customers** | **955 714** | **733 191** |

## C. Market risk

A way of limiting market risks in the Bank is the accepted investment limits that affect all market, government and counterparty risk elements. Investment limits are approved by the Asset and Liability Management Committee.

The purpose of currency risk management is to limit the Bank's losses emerging from this risk to a level that's acceptable to TBI Bank EAD.

Currency risk management in TBI Bank EAD is subject to the internal policy for the management of currency risk, drafted and updated by the Enterprise Risk Management Department and the Treasury and Financial Markets Department. The policy includes the following:

- Definition of currency exchange (FX position);
- Methods employed in the measurement of currency risks; establishment of limits;
- Supervisory tools;
- Authorizations and responsibilities;
- Reporting;
- Organizational separation of currency risk monitoring and management;
- Constant checking whether the limits have been reached, and reporting any excess to the competent persons and the Bank' Assets and Liabilities Management Committee;
- Reporting exposures to the Bank' Assets and Liabilities Management Committee;
- Overseeing the correct and understandable data collection and subsequent checking of larger changes in positions;
- Stress scenarios.

By using a standard approach, the Bank calculates the required regulatory capital for currency risk in accordance with Regulation 575/13 of the European Parliament and Council.

Bank's exposure in terms of derivative instruments/contracts is monitored as part of the general management of market risk. In order to hedge exchange rates' fluctuations, the Bank uses currency swaps.

VaR limits have been adopted for various currency pairs and maturity one day, one week, one month and one year.

Counterparty credit risk is managed by:

1. Assessing the level of a potential counterparty risk, i.e. the potential risk of creating exposure to banks and non-bank financial institutions formed by unsecured claims;
2. Determining the amount of acceptable exposure to each bank and non-bank financial institution counterparty formed by unsecured debts by setting specific limits;
3. Supervising the counterparty risk to banks and non-bank financial institutions.
4. Revising the investment limits to counterparties at least once a year

The Bank applies the method of determining the market value of equity to be allocated for CCR.

### D. Interest risk

The Bank is exposed to interest rate risk due to changes/volatility of market interest rates for all of the financial instruments that are directly affected by interest rate changes.

Changes in interest rates can have a significant impact on the net interest income (interest margin) and/or the equity.

The Bank takes risks associated with the effect of changing market interest rate levels both in terms of its financial assets and cash flows. As a result of these changes, interest rate margins could increase, but they could also decrease and lead to losses in the event of unexpected downturns.

The policy on interest rate management consists of:
- Procedures for the measurement and management of interest rate risk;
- Organization and monitoring;
- Authorities and duties;
- Control mechanisms

The measurement of interest rate risk in respect of debt securities is carried out by the enterprise risk management department using the following quantitative method:

"Duration "- a basic measure of the sensitivity of an instrument to a change in the required yield to maturity. The Bank uses the modified duration method to measure the interest rate risk associated with each instrument based on an interest rate. Calculation of modified duration is performed using the following formula:

Modified Duration = (Macoli Duration) / (1 + W / n), where:

Macoli Durinity - Average-weighted cash flows on a time basis:
Macoli Duration = Σ [(Current Cash Flow Rate) i × (Time to
Cash Outflow) i] / Bond Price
Y - yield to maturity
n - number of interest payments per year

The Bank has adopted investment limits that are also a means of limiting interest rate risk.

**Interest rate risk in the banking book**

As part of Interest Rate Risk In the Banking Book the Bank applies two approaches:

- Net Interest income
- Economic Value of Equity

One measure of market risk used for the banking book is the Net Interest Income (NII) sensitivity assessment . This method is based on the projection of interest income and interest expense resulting from exposures occurring on the asset, liability and off-balance sheet sides (all accrued interest and, if applicable, other costs, fees and commissions are taken into account). The projection is made assuming constant (static balance sheet) structure of the balance sheet.. This is a method that takes into account off-balance sheet positions in which the total size and composition is maintained by exchanging maturing and replicable cash flows for new cash flows that have identical characteristics in terms of amount, repricing period and spread components, maturing transactions are replaced by transactions with the same characteristics as maturing transactions (type, duration, repricing).

NII is the most important part of P&L because it illustrates the bank's ability to generate stable results.

The ΔNII is used to measure change in earnings of the Bank. The change in earnings, according to EBA GL should be the difference between expected earnings under a base scenario and expected earnings under an alternative, more adverse shock or stress scenario.

TBI Bank applies the requirements and assumptions in accordance with the SREP Category 3 Bank Guidelines.

In accordance with the EBA (EBA/GL/2018/02) on Interest Rate Risk Management for the Banking Book, institutions should manage and mitigate the risks arising from their IRRBB exposures that affect both their income and economic value. The Economic Value (EV) measures in IRRBB is aimed to assess the changes in the net present value of the interest rate sensitive instruments over their remaining life of an exposure that result from interest rate movements. EV measures reflect changes in value over the remaining life of the interest rate sensitive instruments, i.e. until all positions have run off.

The Bank applies the EBA requirements regarding the outliers test. The measurement is based on discounted cash flows, which are performed in a set of different interest rate shock scenarios. The Bank uses standard shock scenarios for the purpose of measurement of ΔEVE. This is in line with EBA GL for SREP Category 3 institutions. The bank has concluded several interest rate swaps to mitigate this risk. The total amount of capital required is 6 382 thousand BGN.

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### E. Currency risk

The bank does not allocate capital under the Pillar I, as the total amount of non-matched positions is below 2% of total own funds.

As part of ICAAP, The Bank determines the degree of currency risk using VaR model based on the hypothetical open currency positions and the impact of exchange rate changes on the Bank's financial result. The VaR (of currency risk) is used the method for calculation is parametric assuming normal distribution with 1-day, 1-week, 1-month, and 1-year holding period. The covariance matrix is estimated using 250 observations for each currency and applying EWMA (Exponentially Weighted Moving Average) with lambda 0.94. The models is back tested for a period of one year.

### F. Operational risk

TBI Bank EAD fully adopts principals related to Operational risk management in accordance with Regulation 575/2013 and Directive 2006/48/EC (CRD) namely a clear organizational structure with well-defined transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and adequate internal control mechanisms, including sound administrative and accounting procedures. People, processes, systems and external factors are drivers of operational risks. Management efforts and actions aimed at preventing or mitigating operational risks.

TBI Bank EAD internal policy on the management of operational risk is the basic document that regulates how this type of risk should be handled. Operational risk management is an important part of the Bank's activity, as it allows for its long-term existence and the maintenance of good reputation.

During 2020 the Bank continues the process for evaluation and upgrading internal system for Operational risk management.

In order to ensure better performance of identification, evaluation and reduction of operational risk, TBI Bank applies the following methods:

- Conduct regular trainings of department managers involved in operational risk management (mandatory and unified qualification program);
- Introducing heads of departments to the basic principles of operational risk (training was provided and training materials provided);
- All heads of departments are involved in the process of identifying and assessing operational risk;
- Preparation of a comparative analysis based on historical data;
- Preparation of regular reports on the operational risk and their presentation to the Supervisory Board, the Management Board and the Risk Committee;
- Audit the process of operational risk management as part of the regular audits;
- Continuous implementation of the operational risk management process;
- Conduct an internal control process and self-assessment of risks in the Central Unit and the Bucharest branch;

- A contingency plan and business continuity plan of TBI Bank EAD is prepared;
- Maintaining an internal electronic platform for reporting the occurring and identified operational events.

As a part of risk mitigation techniques and according to article 323 of Regulation (EU) 575/2013 TBI Bank EAD has an active insurance policy, which covers typical risks of systematic and human errors and actions, involuntary actions of all employees; hardware, software and communication problems; problems in data transmission; malicious external acts; property insurance, etc.

Regarding the operational risk when reporting the capital, the Bank uses the Alternative Standardized Approach for calculating the minimum required capital for regulatory purposes under Pillar I, which averages the net interest income on business lines for the last three audited, annual, accounting periods. Different coefficients are applied for the business lines.

| BANKING ACTIVITIES | RELEVANT INDICATOR | | | LOANS AND ADVANCES (IN CASE OF ASA APPLICATION) | | | OWN FUNDS REQUIREMENT | Total operational risk exposure amount |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2018 | 2019 | 2020 | | |
| **1.BANKING ACTIVITIES SUBJECT TO BASIC INDICATOR APPROACH (BIA)** | | | | | | | 4 015 | 50 188 |
| **2. BANKING ACTIVITIES SUBJECT TO STANDARDISED (TSA) / ALTERNATIVE STANDARDISED (ASA) APPROACHES** | | | | | | | | |
| ***SUBJECT TO TSA:*** | | | | | | | | |
| CORPORATE FINANCE (CF) | - | - | - | | | | | |
| TRADING AND SALES (TS) | 1 459 | 387 | 250 | | | | | |
| RETAIL BROKERAGE (RBr) | 39 | 48 | 40 | | | | | |
| COMMERCIAL BANKING (CB) | - | - | - | | | | | |
| RETAIL BANKING (RB) | - | - | - | | | | | |
| PAYMENT AND SETTLEMENT (PS) | (907) | (909) | (791) | | | | | |
| AGENCY SERVICES (AS) | - | - | - | | | | | |
| ASSET MANAGEMENT (AM) | - | - | - | | | | | |
| ***SUBJECT TO ASA:*** | | | | | | | | |
| COMMERCIAL BANKING (CB) | 6 798 | 7 411 | 5 800 | 194 215 | 211 745 | 165 701 | | |
| RETAIL BANKING (RB) | 21 256 | 25 146 | 28 092 | 607 314 | 718 468 | 802 623 | | |
| **3. BANKING ACTIVITIES SUBJECT TO ADVANCED MEASUREMENT APPROACHES AMA** | | | | | | | | |

## G. Reputational risk

The main objective here is to preserve the confidence of customers and local and foreign business partners of the Bank, through the creation of relationships based on trust, safety and mutual respect. Therefore, customer focus is a fundamental value for the Bank's employees.

One of the main activities having a direct impact on the reputation of the Bank is the presentation of the organization to the outside world, which is direct responsibility of the institution's Management Board and employees.

Capital requirements for reputational risk are not calculated.

## H. Strategic risk

TBI Bank is taking into account strategic risk when preparing its strategy, by following a conservative approach. The preparation of a long-term strategy is focused in advance on the Bank's competitive advantages, such as comprehensive and first class offers for customers and high level of employees' expertise.

The Bank regularly monitors the transactions and the achievement of planned objectives. Part of this process is the tracking of market fluctuations and regulatory conditions.

In budget planning, strategic risk is assessed at least once a year, whereby the Bank's management:

- issues guidelines for the plan/budget;
- adopts the plan/budget;
- ensures the plan is implemented, and reports to the Supervisory Board ;
- proposes measures, if necessary;

According to the applicable law, the strategic risk is not included in the calculation of required regulatory capital.

### I. Compliance risk

Compliance Department organizes the activities of the Bank in accordance national, European and international law to which Bulgaria is a party, in the following areas:

- Establishment of internal rules and procedures;
- Prevention of money laundering and financing of terrorism;
- Ethics and fraud
- Customers complaints

It provides Bank's management and structural units in the Head Office and branch network with current information and advice in dealing with customers.

Compliance Department performs the functions of a specialized service for control and prevention of money laundering and financing of terrorism, "TBI Bank" JSC and works in partnership with all business units and offices of the bank.
It monitors the adequacy of the internal regulatory framework in terms of completeness, timeliness, relevancy and knowledge and make recommendations for relevant amendments after legislative changes.

**The Management Board of the Bank considers that the mechanisms and systems of risk management are adequate in terms of risk profile and strategy of the Bank.**

## V. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

The objective of risk management in the Bank is to provide an optimum volume, structure and sources of capital, so as to ensure:

- adherence to the capital requirements set by the regulatory authorities of the banking market in which the Bank operates;
- Bank's ability to continue its activity as an existing enterprise that provides its shareholders with a return on their investments;
- maintenance of a stable equity base, serving as a base for the Bank's development

## 1. Capital management and capital adequacy

The basic criterion for establishing whether the amount of the Bank's or Bank Group's capital is sufficient is the capital adequacy ratio (the ratio between risk-adjusted assets and capital). The Bank determines the ample amount of capital for assumed risks based on two approaches:

The capital requirement's structure reflects the institution's business profile. The minimum prescribed ratio for banks and bank groups, as per EC Directive and Regulation № 575/2013 of the European Parliament and Council dd. 26th of June, 2013 concerning the prudential requirements for credit institutions and investment brokers, along with its supplementing capital buffers prescribed by the Bulgarian National Bank, is 14.75 %, based on 8 % requirement for capital adequacy, 0.75% is the P2G requirement, 2.5 % capital conservation buffer, system risk buffer of 3 % and the countercyclical buffer of 0.5 %.

Internal and business approach – this is a methodology for the identification and measurement of risks and the calculation of capital requirements, prepared by the Bank according to its perception about what would best suit the needs of management. The Bank itself sets the appropriate and required level of capital to cover these risks.

Structured in the next table are the Bank's owner's equity and indexes as of 31st of December of the respective reporting years. During these two years, the Bank has complied with all external and internal capital requirements.

| **Year**<br>(`000 BGN) | **2020** | **2021** |
|---|---|---|
| Tier 1 Capital: | - | - |
| Share capital | 81 600 | 81 600 |
| Reserves and profit/loss accumulated from previous period | 110 883 | 120 172 |
| Deductions: | - | - |
| Intangible assets | (9 209) | (11 488) |
| Other adjustments of Tier 1 capital | (5 541) | (9 636) |
| **Total Tier 1 Capital** | **177 733** | **180 648** |
| **Total Tier 2 Capital** | - | **17 111** |
| Total risk-weighted assets | 919 271 | 855 560 |
| Capital adequacy ratio | **19.33%** | **23.11%** |

As of 31.12.2021, the Bank meets the regulatory capital requirements in the following manner:

| Capital requirements for credit risk, counterparty credit risk, dilution risk and settlement risk in free deliveries – risk weighted assets (in 000 BGN) | 2021 |
|---|---|
| Central governments and central banks | 22 010 |
| International development banks | 181 |
| *Institutions* | 11 453 |
| *Companies* | 33 485 |
| *Retail exposures* | 586 270 |
| *Exposures secured by real estate* | 34 178 |
| *Overdue exposures (exposures in default)* | 58 234 |
| *Capital instruments* | - |
| *Other positions* | 59 561 |
| Total capital requirements for credit risk, counterparty credit risk, dilution risk and settlement risk in free deliveries | 805 372 |
| Total capital requirements for position, currency and commodity risk | - |
| Total capital requirements for operational risk | 50 188 |
| Total capital requirements | 855 560 |
| *Surplus(+) / Deficit (-) of owner's capital* | 129 314 |
| *Total capital adequacy ratio (%)* | 23.11% |
| *Tier 1 Capital adequacy ratio (%)* | 21.11% |

## 2. Process of capital management in the Bank

The Enterprise Risk Department and Financial Control and Planning Department (in view of the secondary inspection of the various units) prepare on a regular basis statements, analysis and stress tests needed for the calculation of Bank's capital adequacy, which are reported to management and the Bank's responsible committees and commissions, such as the Assets and Liabilities Committee.

The activities associated with the management of capital needs include also quarterly short-terms forecasts and stress tests on the Bank's capital adequacy ratio.

The Bank regularly reports (on quarterly basis) to the Supervisory Board on the observance of the requirements imposed by Bulgarian regulators.

## 3. Economic (internal) capital

The economic (internal) capital is the amount of capital that the Bank needs to survive any risks that it takes. It's essentially a way of measuring risk. Economic capital should not be confused with regulatory capital (also known as a capital requirement).

Economic capital is a measure of risk in terms of capital. More specifically, it's the amount of capital that the Bank needs to ensure that it stays solvent given its risk profile.

Economic capital is calculated by Enterprise Risk Management Department using internal assumptions, aligned with Credit Risk Managers and internal models. The resulting number is also the amount of capital that the Bank should have to support any risks that it takes.

ICAAP (Internal Capital Adequacy Assessment Process), part of Pillar 2 within the Basel Framework, represents the Bank's own assessment of the capital needed to run the business. This capital differs from the minimum regulatory capital requirement since, the Bank includes risks that are not formally subject to the minimum regulatory capital (concentration risk, interest rate risk in the banking book, risk stemming from devaluation of assets).

Economic capital in TBI Bank is expressed as capital needed against unexpected future losses at a selected confidence level for a certain time horizon. It is a measure of risk and relates capital to any entity specific risk, regardless of the existence of assets. Economic capital is a forward-looking measure of capital adequacy based on a probabilistic assessment of potential future losses. The development and implementation of a well-functioning economic capital model can make the Bank`s management better equipped to anticipate potential problems and thus some of the major parameters are calculated on quarterly basis and presented to ALCO and MB (interest rate risk in the banking book). The primary value of economic is its application to decision making and risk management.

The use of economic value of capital can contribute to a more comprehensive pricing system that covers expected and unexpected losses, assist in the evaluation of the adequacy of capital in relation to the bank's overall risk profile, develop risk-adjusted performance measures that provide for better evaluation of returns and the volatility of returns and enhance risk management efforts.

By creating awareness of potential weaknesses in risk management strategy, frameworks, and processes as well as in the risk mitigation methods we can assist in designing and implementing solutions which can be taken to avoid unexpected or surprising losses.

Description of the assumptions used to calculate additional capital requirements under Basel II Pillar II, including all the main elements / instruments taken into account, namely:

- The amount of internal capital available at the time of valuation, broken down by different items.
- the amount of additional capital required, allocated to the risks covered by the ICAAP entities in the Group, as well as basic business lines and markets, where appropriate.

The economic (internal) capital is calculated as an add-on on regulatory capital.

## 4. Definition and use of stress tests for the ICAAP

Stress tests are a risk management technique employed in the assessment of the potential impact of a specific event or the changes in a number of financial parameters on the institution's financial state. The main assumptions in the stress tests include highly adverse, yet plausible events.

TBI Bank EAD uses mainly stress tests type "sensitivity analysis", which evaluate the impact on Bank's financial status in the case of changed risk factors. The stress testing process starts with an appraisal of possible weaknesses. The main areas the Bank is considerably exposed to overlap with the areas that are fully covered by the stress test framework. Thus are identified all the significant risks subject to stress tests. The establishment of major risks is performed through a comprehensive review of the nature and composition of the banking portfolio.

When determining the frequency of stress tests, one should take into account the nature of the risk factors covered by the stress test framework and their volatility. Stress tests are carried out as often as necessary, with the periodic stress test being conducted at least twice a year. In the event of substantial changes in the business environment or in the Bank's risk profile (market crash, deterioration of global economic conditions, problems in specific industries or of concrete persons), the Bank would update its stress tests, increase their frequency or would specify assumptions.

Stress testing for credit risk is performed by the Enterprise Risk Management Department. Stress tests for liquidity rate risk are prepared in the Bank every month, and they are reviewed at the regular meetings of the Assets and Liabilities Management Committee. The results of the stress tests are reported to the Bank's management, which checks if the risks taken by the Bank conform to the preset risk appetite. The stress tests' reports provide the Bank's management with an overview of the major risks the Bank is or could be exposed to. The reports are focused on potential risks, and they also contain recommendations on the possible countermeasures or actions, if required. As a starting point of the decision making process, there might be necessary to mention the basic assumptions included in the reported scenarios, the comparison of the results with previous stress tests, as well as the current market conditions. If requested, the results from the stress tests and the assumptions are reported to Bulgarian National Bank.

The Bank's management is responsible for the taking of countermeasures and actions, where necessary. These measures and actions depend on specific circumstances, such as:

- review of established limits, especially when the stress tests' results have to be included in the limits set by the Bank (i.e. requirements for market risk and techniques for the reduction of credit risk);
- use of credit protection methods;
- decrease of exposure or activity in particular sectors, countries, regions or portfolios;
- review of capital adequacy;
- implementation of action plans in the event of contingencies;

Once a year the Bank evaluates the stress tests' adequacy in terms of changes that affect portfolio's characteristics or the business environment.

| (in '000 BGN) | CAPITAL REQUIREMENTS UNDER PILLAR I, PILLAR II AND STRESS TESTS | | | | | |
|---|---|---|---|---|---|---|
| Major risk | Regulatory capital (COREP) | | Economic (internal) capital | | | |
| | PILLAR I | | PILLAR II - add-on to Pillar I | | STRESS TESTS - add-on to Pillar I | |
| CREDIT RISK | Standartized approach | 119 011 | Concentration risk | 565 | Static portfolio stress-test under adverse macroeconomic scenario | 2 805 |
| | | | Risk of devaluation of collaterals | 1 157 | Dynamic portfolio stress-test under adverse macroeconomic scenario | 7 685 |
| | PILLAR I | | PILLAR II - add-on to Pillar I | | STRESS TESTS - add-on to Pillar I | |
| MARKET RISK | Standartized approach | 0 | IRRBB | 6 382 | Currency risk | 2 349 |
| | | | Devaluation of acquired fixed assets | 321 | | |
| | PILLAR I | | PILLAR II - add-on to Pillar I | | STRESS TESTS - add-on to Pillar I | |
| OPERATIONAL RISK | Alternative standardized approach | 7 403 | | | Loss related to operational risk events reported | 0 |
| | | | | | Scenario analysis | 0 |
| | | | | | Self-assessment process and risk control | 0 |
| | | | | | External database events | 0 |
| REQUIRED CAPITAL = | | 126 414 | | 8 425 | | 12 839 |
| TOTAL ECONOMIC (INTERNAL) CAPITAL | | | | | | 21 264 |
| TOTAL REQUIRED CAPITAL | | | | | | 147 678 |
| TOTAL OWN FUNDS (31.12.2021) | | | | | | 197 910 |

## VI. LEVERAGE RATIO

In compliance with Article 451 of Regulation (EU) 575/2013, TBI Bank EAD disclose the information regarding the leverage ratio and the management of the risk of excessive leverage. The Basel III framework introduces the leverage ratio as a credible supplementary measure to the risk-based capital requirements which is defined as the Capital Measure divided by the Exposure Measure. As of 31.12.2021 the ratio is 13,67% with fully phased definition of Tier I capital.

| Leverage ratio | |
|---|---|
| Leverage Ratio – using a fully phased-in definition of Tier 1 capital | 13.67% |
| Leverage Ratio - using a transitional definition of Tier 1 capital | 13.89% |

## VII.REMUNERATION POLICY AND PRACTICE

TBI Bank EAD has adopted a conservative remuneration policy. Every year, along with the drafting of the annual plan and budget, or upon the occurrence of any changes in legislation, the Bank, through its Management announces the core principles of the remuneration policy practiced by it.

The basic salaries of the Bank's employees are the result of the performance of office tasks, assignments and responsibilities associated with the respective office and executed during normal working hours and normal working conditions. Remunerations are paid only in cash through bank transfer. The labor remuneration system in the Bank is time and bonus related.

The basic salary is a remuneration for the performance of certain office tasks and obligations, which are part of the respective office and conform to the corporate standards on the fulfillment of duties in a quantity, quality and on time manner.

Working salary funds for the respective period are used for the establishment and payment of:

- basic monthly salaries under labor contracts;
- additional and other type of remunerations (mainly for sales employees)

| Business area (all amounts in `000 BGN) | Number of employees | Remuneration paid | | | Share fix-variable |
|---|---|---|---|---|---|
| | | fixed | variable | one off | |
| All staff (total) | 1 752 | 50 909 | 16 594 | 3 040 | 33% |
| 1. Administrators and other senior staff | 18 | 4 515 | 65 | 1 292 | 1% |
| 2. Employees at risk taking positions and employees within Internal Control Functions | 5 | 527 | | 78 | 0% |
| 3. Employees with commensurate remunerations | | | | | |
| - The employees receiving annual total remunerations higher than employees at point 1 - TBI Bank EAD Sofia | | | | | |
| 4. The employees whose activity could significantly affect the Bank's financial status and results, regardless of the current remunerations received by these employees | 6 | 913 | | 264 | 0% |
| | | | | | |
| Risk Direction* | 187 | 4 405 | 862 | 203 | 20% |
| Finance Direction | 37 | 1 952 | - | 163 | |
| Operations Direction | 122 | 2 987 | - | 196 | |
| IT Direction | 64 | 4 004 | - | 281 | |
| Business Direction** | 1 247 | 28 142 | 15 667 | 233 | 56% |
| Administrative Direction | 66 | 3 464 | | 329 | |

*Variable payments are related to collection incentives and other short-term, non-risk-related incentives for employees who perform their duties according to pre-defined processes

**Virable payments are related to sales bonuses and commisions. Sales employees have no impact on risk related decisions.

Additional and other types of remuneration apply primarily to staff engaged in direct sales and collection of bad debts. The senior management of the Bank has no agreed variable remuneration. The annual working salary funds are included in the Bank's budget.

## VIII. DISCLOSURE UNDER ART. 70 OF THE LAW ON CREDIT INSTITUTIONS

| Country | Bulgaria | | | Romania | | |
|---|---|---|---|---|---|---|
| Name | TBI Bank EAD | Vivus.BG EOOD | TBI Buy EAD | TBI Bank - Bucharest Branch | TBI Money IFN S.A. | TBI Leasing IFN S.A. |
| Activity | Credit institution | Customer loans provider | Company managing marketing platform | Credit institution | Customer loans provider | Leasing company |
| Turnover in TBGN | 166 392 | 10 968 | 0 | 16 323 | 70 791 | 1 659 |
| Number of employees on permanent contract | 969 | 59 | 44 | 130 | 506 | 64 |
| Gross profit in TBGN | 21 482 | 2 055 | (854.00) | (2 261.00) | 20 654 | 382 |
| Corporate tax in TBGN | 2 798 | 103 | - | - | 3 784 | 72 |
| ROA | 2% | 26% | -46% | -1% | 23% | 4% |

Valentin Galabov
Executive director

Alexander Dimitrov
Executive director

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