TBI BANK EAD

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED FOR USE BY THE EUROPEAN UNION

31 DECEMBER 2022

This version of the financial statements is a translation from the original, which was prepared in Bulgarian. All possible measures has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation

Registered tradename and UIC
TBI Bank EAD
131134023

Representation (by any two executive directors jointly)
Valentin Galabov
Alexander Dimitrov
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and

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Abbreviations

AA	Accountancy Act
Bank	TBI Bank EAD
BNB	Bulgarian National Bank
CA	Commercial Act
EBA	European Banking Authority
ECL	expected credit losses
EIR	effective interest rate
EU	European Union
FSC	Financial Supervision Commission
FVOCI	fair value through OCI
FVPL	fair value through profit or loss
Group	TBI Bank EAD and its subsidiaries
IAS #	International Accounting Standard #
IAS	International Accounting Standards
IFRSIC	IFRS Interpretations Committee
IFRS #	International Financial Reporting Standard #
IFRS	International Financial Reporting Standards
MFIA	Markets in Financial Instruments Act
NBR	National Bank of Romania
NCGC	National Corporate Governance Code
NPL	non-performing loans
OCI	other comprehensive income
POSA	Public Offering of Securities Act
SPPI	solely payments of principal and interest

Business and corporate information

TBI Bank EAD (the Bank), with UIC 131134023, is a member of 4Finance Group, which as at 31 December 2022 holds 100% (81,600,000 shares) of the Bank's capital through TBI Financial Services B.V.

TBI Bank EAD, together with its subsidiaries, offers a wide range of banking and financial services to local and foreign customers through its more than 206 offices and remote working stations, serviced by 1,863 employees (2021: 1,765 employees).

The Bank operates in Bulgaria through its headquarters, in Romania through a branch registered in October 2012, and in Greece through a branch registered in April 2022, on the basis of the single European passport. The subsidiaries of the Bank provide non-banking financial services through their existing office network, with a key focus on servicing individuals and small and medium-sized enterprises.

The Bank performs services as an investment intermediary in accordance with the provisions of the Public Offering of Securities Act (POSA). As an investment intermediary, the Bank complies with certain requirements for customer protection in accordance with the Markets in Financial Instruments Act (MFIA) as well as Ordinance 38 and Ordinance 58 issued by the Financial Supervision Commission (FSC). The Bank has established and implements a procedure for the conclusion and execution of contracts with customers, collection of customer data, keeping of books and safeguarding customer data archives in compliance with local regulations, and specifically with the requirements of Ordinance 38, art. 28 – 31 and Ordinance 58, art. 3. The Bank has established internal control rules and procedures to ensure compliance with the general regulatory framework applicable to its operations.

TBI Bank EAD has a two-tier governance structure. All members of the supervisory and management boards comply with the requirements of the Credit Institutions Act (CIA) and Regulation 20 of the Bulgarian National Bank (BNB), and have been explicitly approved by the latter. TBI Bank EAD has a functioning audit committee, with a structure compliant with the requirements of the Independent Financial Audit Act (IFAA).

As at 31 December 2022 and 2021, TBI Bank EAD is the owner of TBI Money IFN S.A., Romania; TBI Asset Management S.A. (till 2022 called TBI Leasing S.A.), Romania; Vivus.bg EOOD (till 2022 called 4Finance EOOD), Bulgaria and TBI Buy EAD (till 2022 called TiBuy EAD), Bulgaria (the Group).

The Group holds a well-diversified customer portfolio. The adopted strategy focus on increased retail lending to individuals set the pattern for the significant growth of the loan portfolio, which characterised the Group's operations in 2022 and 2021. Profitability levels remained solid, despite the increasingly higher cost of attracted funds. Concurrently, the maintenance of stable liquidity levels stood of key importance for the Group, despite the expansion of its operations and the sharp increase in lending volumes.

Financial position and performance

In 2022, the Group generated net interest income at the amount of BGN 249,028 thousand, representing a 21.84% increase compared to 2021 levels, which was attributable to the significant growth of the loan portfolio. The 2022 profit of the Group amounted to BGN 71,259 thousand, compared to BGN 53,770 thousand in the previous year.

Operating revenues (net interest income, net fee and commission income, net trading gains and other net operating income) have grown by 25.05% during the reporting period as compared to the prior year.

The operating income' structure before impairment was as follows: net interest income represented 82.73%, net fee and commission income – 26.29%, and the remaining components of net operating income accounted for a net loss of 4.86%.

In 2022, the total assets of the Group went up by 50.97%, compared to the end of 2021 and reached BGN 2,095,153 thousand (2021: BGN 1,387,750 thousand). At the end of 2022, the largest increase by BGN 441,883 thousand was noted in loans to customers. The increase in the loan portfolio was due to the increase in retail exposures, which substantially exceeded the share of corporate loans.

The Group's liabilities as of 31 December 2022 amounted to BGN 1,737,479 thousand (2021: BGN 1,070,587 thousand), 89.64% of which, or BGN 1,557,523 thousand (2021: BGN 968,756 thousand), represented deposits from customers and banks. A 62.97% increase (by BGN 601,809 thousand) in deposits from customers, and a 100% decrease in deposits from banks were realised in 2022.

BGN'000	2022	2021	2020
Total assets	2,095,153	1,387,750	1,087,501
Equity	357,674	317,163	265,677

The Group's equity went up by 13% in 2022 as a result of the profit generated during the year.

Liquidity and risks

According to the current liquidity measurement and management policy, the liquid assets ratio (the ratio of liquid assets to deposits other than those attracted from credit institutions) is used as key indicator. At the end of 2022, this indicator stood at 34.60% (2021: 33.23%), which demonstrated stability of the cash flows, and significantly exceeded the minimum required threshold of 20%.

	2022	2021	2020
Liquidity ratio (%)	34.60	33.23	31.88

Trends, events or risks that might have material impact on operations:

In the context of limited economic growth, the Group works towards efficient risk management with main focus on improvement of the processes in the areas of lending, payments, customer service and maintenance of the loan portfolio quality. Emphasis is laid on the timely measures for collection of problematic receivables. The trends for the future development of the Group in general are for continued increase in the amount of assets, especially loans, as well as for increase in attracted funds.

The major risks, relating to the operations of the Group and the banking sector as a whole are:

- credit risk – the maximum exposure to credit risk as at 31 December 2022 amounts to BGN 2,158,163 thousand;
- liquidity risk – the net difference in liquidity of the assets and liabilities as at 31 December 2022 amounts to BGN 167,541 thousand;
- currency risk – to hedge its currency risk, the Group uses currency swaps;
- interest rate risk – the effect of increase/decrease in interest rates by 100 basis points on the 2022 profit would amount to an increase/decreasin in profit by BGN 6,747 thousand;
- inflation risk;
- business risk;
- operational risk (including reputation risk).

In view of the current economic environment, credit risk exercises the greatest impact on the Group's operations. To address these challenges, the Group has developed a clear growth strategy which includes targeting a focused segment of customers, as well as enhancing the existing market share through geographic diversification of assets and liabilities.

It should be emphasized that a large portion of the term funding from individuals and legal entities is subject to relevant measures to motivate rolling forward of the repsective deposits. Corporate deposits are generally large in size and it is common practice to have their terms and conditions reconsidered and negotiated shortly before their maturity date.

A policy of matching fixed and floating interest rate assets and liabilities is applied with respect to interest rate risk. The Group's policy is to set a minimum interest rate threshold for floating rate assets.

To manage credit risk the Group has developed strict procedures for analysis and assessment of potential borrowers, including scoring procedures and detailed verification of the data provided. In addition, the Group has developed an effective payment monitoring system, as well as active measures for collection of receivables. Preliminary analysis and subsequent monthly monitoring are in place to detect concentration of related parties by sectors of the economy and other cross-sections in compliance with the Group's internal rules.

Research and development

The Group carries out no research and development activities.

Significant events after the annual closing of accounts

Except for the events disclosed in Note 34 to the consolidated financial statements, no other significant events have occurred after 31 December 2022, which may have an effect on the Group's operations or may require adjustments in the financial statements.

Future plans of the Group

The management of the Group expects the economic environment in Bulgaria, Romania and Greece to continue its stabilisation and pass on to gradual economic growth. The macroeconomic and financial stability will contribute to the growing market of financial services in a viable, efficient and competitive banking system. We expect acceleration of the process of integration of the Bulgarian economic and financial system within the European space.

This will contribute to the implementation of new and the expansion of existing bank services and products. The Group will continue to maintain adequate financial, managerial, and technical capacity as basis for efficient and thriving banking and financial activity.

The Group will continue its development in the main segments of the banking and financial market. The main focus will be placed on lending to individuals. The Group will continue to develop products offering competitive conditions on deposits and current account to its customers, while developing project financing and commercial financing as well as new, innovative products. The future development of the Group will be based on the creation of wider customer base and stable distribution network for financial services, including offline and online distribution channels. The main development focus will be on electronic commercial transactions. The Group will continue to keep high corporate governance standards, and will work actively for the development of bank security, by implementing flexible and efficient organisational structure with clear segregation of duties and responsibilities. The Group will continue to create opportunities for internal competition between the units, control and incentives with continuous improvement of the qualifications of its employees. It will follow an ambitious personnel recruitment, training and renewal policy.

The Group employs highly qualified personnel sharing the following major values:

- motivation and professional ambition;
- open and free communication;
- taking personal responsibility;
- commitment to the standards and goals of the organisation.

The main objectives and tasks the Group is facing are related to:

- ensuring maximum security for the customers and depositors of the Group;
- maintenance of high asset quality with stable liquidity and profitability;
- maintenance of sufficient capital adequacy corresponding to the risk profile of the Group, and proper management of currency, interest rate and other risks, inherent to the banking operations;
- efficient cost control;
- good return on shareholders' equity.

(continued on the following page)

Information required under art. 187(e) of the Commercial Act regarding treasury shares held, redeemed or transferred; information on the members of the supervisory and management boards

No shares were redeemed or transferred during the year.

The interests held by the members of the supervisory and management boards in commercial entities as unlimited liable partners, the holding of more than 25% of the capital of another entity, as well as their involvement in the management of other entities or cooperatives as procurators, general managers or board members are as follows:

- **Ariel Hason – chairman of the supervisory board**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) legal entities in which he holds, directly or indirectly, at least 25% of the shareholder votes or has control:
     - Hasson B.V., the Netherlands – 50%
  3) legal entities where he sits on the management or controlling bodies:
     - TBI Financial Services B.V. (till 2021 called TBIF Financial Services B.V.), the Netherlands – member of the board of directors and executive director;
     - DHB Bank (Nederland) N.V., the Netherlands – member of the supervisory board;

- **Kieran Donnelly – member of the supervisory board**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) there are no legal entities in which he holds, directly or indirectly, at least 25% of the shareholder votes or where he has control;
  3) legal entities where he sits on the management or controlling bodies:
     - 4Finance Holding S.A., Luxembourg – chairman of the board of directors;
     - 4Finance Group S.A., Luxembourg – chairman of the management board;
     - AS 4Finance, Latvia – chairman of the board of directors;
     - 4Finance Group Ltd., United Kingdom – director;
     - 4Finance Holding Ltd., United Kingdom – director;
     - 4Finance S.A., Luxembourg – chairman of the board of directors;
     - 4Finance AB, Sweden – deputy member of the board of directors;
     - 4Finance ApS, Denmark – member of the board of directors

- **Gauthier Van Weddingen – member of the supervisory board**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) legal entities in which he holds, directly or indirectly, at least 25% of the shareholder votes or where he has control:
     - GVW Business Point Advice S.R.L., Romania – 100%;
     - Aquarius Energy Renewables SRL, Romania – 26.83% through GVW Business Point Advice S.R.L., Romania
  3) legal entities where he sits on the management or controlling bodies:
     - Nero Renewables N.V., the Netherlands – CEO and co-administrator in the Romanian subsidiaries;
     - GVW Business Point Advice S.R.L., Romania – administrator;

- **Valentin Galabov – member and chairman of the management board and executive director**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) legal entities in which he holds, directly or indirectly, at least 25% of the shareholder votes or where he has control:
     - CREDiPORT AD, Bulgaria – 96.67%
  3) there are no legal entities where she sits on the management or controlling bodies

- **Alexander Dimitrov – member of the management board and executive director**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) there are no legal entities in which he holds, directly or indirectly, at least 25% of the shareholder votes or where he has control;
  3) there are no legal entities where he sits on the management or controlling bodies

- **Nikolay Spasov – member of the management board and executive director**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) there are no legal entities in which he holds, directly or indirectly, at least 25% of the shareholeder votes or where he has control;
  3) legal entities where he sits on the management or controlling bodies:
     - TBI Buy EAD, Bulgaria – member of the board of directors;
     - Borika EAD, Bulgaria – member of the board of directors;

- **Lukas Tursa – member of the management board and executive director**
  4) does not hold any interests in commercial entities as unlimited liable partner;
  1) there are no legal entities in which he holds, directly or indirectly, at least 25% of the shareholder votes or where he has control;
  2) there are no legal entities where he sits on the management or controlling bodies

- **Pavels Gilodo – member of the management board**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) legal entities in which she holds, directly or indirectly, at least 25% of the shareholder votes or where she has control:
     - SIA Gita 3 AS, Latvia – 100%
  3) legal entities where she sits on the management or controlling bodies:
     - 4Finance AS, Latvia – deputy CEO

- **Denis Gorbunov – member of the management board**
  1) does not hold any interests in commercial entities as unlimited liable partner;
  2) legal entities in which she holds, directly or indirectly, at least 25% of the shareholder votes or where she has control:
     - Integrity Enterprise OOD, Bulgaria – 49%;
     - A234 OOD, Bulgaria – 25%;
     - Ziguli Property EOOD, Bulgaria – 100%
  3) legal entities where she sits on the management or controlling bodies:
     - TBI Buy EAD, Bulgaria – member of the board of directors and executive director

Contracts signed in 2022 under art. 240 (b) of the Commercial Act; remuneration of board members

The members of the boards and their related parties have no contracts signed for activities beyond the ordinary ones, or at terms and conditions significantly different from the ordinary market conditions.

The total net income received by the members of the management board and the members of the supervisory board in 2022 amounts to BGN 2,982 thousand.

Information regarding shares and bonds acquired, held and transferred by the management and supervisory board members during the year

The members of the management board are not allowed to acquire shares and bonds issued by the Bank. Therefore, the members of the management board of the Bank have not acquired, held or transferred shares or bonds in 2022.

The management is required by Bulgarian legislation to prepare financial statements for each financial year that give a true and fair view of the financial performance of the Group and of its financial position as at the year end. The management has prepared the accompanying financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted for use by the European Union.

The management confirms that it has consistently applied adequate accounting policies and has complied with the current IFRS requirements. The financial statements have been prepared on a going concern basis.

In the future TBI Bank EAD will continue to provide high-quality banking services, market-driven products and will strive to remain the best banking partner for its customers.

The annual management report was approved for issue by the management board of the Bank on 9 August 2023 and signed on its behalf by:

Valentin Galabov
(executive director and
management board member)

Nikolay Spasov
(executive director and
management board member)

TBI Bank EAD (the Bank) is a Bulgarian joint-stock company active in corporate and consumer lending, acceptance of deposits and other repayable funds from the public, investment intermediary services, payment services, dealing with foreign exchange and precious metals on own account or on customer orders, guarantee transactions, and all other related operations as laid down in the Bulgarian National Bank's regulatory framework.

The Bank has a branch operating in Romania, which is registered under the local law, and a branch operating in Greece, also registered under the local law. The branches' activities overlap with those of the Bank in Bulgaria, except for investment intermediary services. In addition, the Bank has two subsidiaries in Romania – TBI Money IFN S.A., whose main activity is consumer lending, and TBI Asset Management S.A. (till 2022 called TBI Leasing S.A.), which provides leasing services, as well as two subsidiaries in Bulgaria – Vivus.bg EOOD (till 2022 called 4Finance EOOD), whose main activity is consumer lending, and TBI Buy EAD (till 2022 called TiBuy EAD), whose main activity is software development and electronic trading and services platform maintenance, incl. commercial mediation (hereafter collectively referred to as "the Group").

The goal of the Group is to develop as a major player on the consumer lending market in Bulgaria, Romania and Greece by offering offline and online products and focusing mainly on cash and commodity loans, as well as on credit card offering. To achieve this goal, the Group employs a strategy that relies on technological development and on building diversified teams of young and talented people.

Anti-corruption policies and activities

The Group has brought its operations in line with the requirements of anti-bribery and anti-corruption laws. The policy of the Group is to carry out its operations in an honest and ethical manner. All employees are expected to apply the highest standards of professional and personal ethics in fulfilling their assigned duties.

The guiding principles related to these areas are set up in the Code of Ethics of the administrators and employees of TBI Bank EAD (the Code). The Code is accessible on the Bank's internal website and is designed for all employees hired under an employment contract, as well as for all counterparties who carry out various operations for the Bank on any other ground.

The Regulatory Compliance Department (RCD) is charged with exercising an effective control over possible risks of misconduct, bribery and corruption. The heads of departments of the Bank are responsible for enforcing the rules and surveying employees' activities, and in the event of non-compliance, they should inform the RCD and the Bank's management.

For the early detection and prevention of misconduct, the RCD encourages the employees of the Bank to act in good faith and to report suspected misconduct to their supervisors, as well as ensures compliance with the internal rules and procedures in identifying and investigating unauthorized or unusual activities. As part of the regular trainings of the RCD employees, various issues related to the detection and reporting of cases of misconduct are also considered.

The employees of the Bank have the opportunity to send signals for any specific violations of the Code through different communication channels: via telephone, e-mail (compliance@tbibank.bg), or by sending a hard-copy letter to the RCD.

Third parties may report violations through the website of TBI Bank EAD – www.tbibank.bg or may file a letter of complaint to the Bank's headquarters or offices. The signals are to be sent in case of suspected violation of ethical and professional conduct, damage to the interests of the customers, or non-compliance with the requirements for protection of banking information and data.

Any signals received are examined by the legal advisor of the RCD with regard to their legal soundness. The legal adviser then prepares an opinion as to the level of legal risk based on the circumstances described in the signal and their impact on the Bank. Whenever any evidence for reasonable suspicion of unacceptable activities or behaviour is found on the basis of the legal opinion, action is taken for further investigation by collecting additional information and clarification with the assistance of the relevant managerial employee and the heads of Internal Audit Department and Internal Security Department. The investigation may also include employees from other departments of the Bank.

The RCD shall notify the management board, respectively the supervisory board of all the cases of serious violations of the Code of Ethics of the administrators and employees and shall suggests follow-up actions, such as:

- laying down and implementing appropriate measures by the respective managerial employee;
- laying down and implementing measures in compliance with the internal rules and procedures of the Bank;
- notifying external institutions such as law enforcement authorities, court, prosecution, etc.

Copies of all reports on cases of misconduct, examined by the RCD, including information on proposed measures for the improvement of the internal control system and the measures taken, are kept by the RCD.

Staff and human rights policies and activities

The Group enforces and observes the provisions of local labour law and of the health and safety at work legislation. The Group follows the world's best practices in these areas, which are introduced and adopted for considering and settling issues concerning its employees. Human resource management and development policies and procedures provide the necessary clarity and guidance to both managers and employees in the Group.

About 1,765 employees work in the Bank and its related structures, with a 25% to 75% ratio of men to women. This number includes 168 employees, who were on parental leave at the time of the submission of the non-financial declaration.

The Group applies the principle of equal pay for different genders for work with equal value. The people who work in the Group are its most important assets and represent its best investment. This follows the Group's strategy to embrace change, which can only be brought about by people and ultimately depends on their skills and competences.

We have implemented improvements in the field of human resource management imposed by the need for knowledge management, which creates a competitive advantage for faster and more competent decision-making. We employ web-based systems to facilitate faster communication between people and structures, to spread and exchange knowledge and to share innovations that shape societies and economies. We always strive to be the first.

As a result, human resource management acquires an increasingly strategic dimension. It focuses primarily on unlocking the human resource potential in the organization in order to pave the road for continuous change and for making the most of it to achieve the Group's goals.

In the activities related to human resource management and development the Group attempts to ensure transparency and equality for employees, in providing multiple opportunities for knowledge and skills acquisition as well as overall career development.

A schedule of training courses for employees is prepared annually for the next calendar year. The schedule is discussed with the relevant heads of departments and approved by senior management.

The supervisors are consulted about the training sessions which are then carried out. Their effectiveness is subsequently assessed and follow-up actions are developed to improve the teaching processes. The average number of training hours per employee per year is not less than 8.

In the area of employee selection, newly created jobs and functional positions are first announced internally and any employee who wihes and meets the specified requirements has the right and opportunity to apply. The application process and the subsequent steps are laid down in the internal rules and procedures of the Group. Additionally, by giving recommendation for specific professionals meeting the above requirements, the employees of the Group themselves contribute to the formation of efficient and high-performance professional teams.

New recruits attend introductory professional training courses that are consistent with the regulatory requirements for the relevant positions, as well as other trainings related to the quality performance of the assigned tasks. As a result of a detailed analysis of training and development needs, employees have the opportunity to attend ad hoc or regular training courses, both to improve their professional competencies as well as to develop soft skills such as: customer relationship management, project management, team management, and more. In its activities related to human resource management and development, the organization is in partnership with external institutions – universities, recruitment agencies, training and consulting firms.

We actively participate in various employers' fairs where we present the work and development opportunities at the Group and support the professional orientation of young people.

For several years we actively supported the "Manager for a Day" initiative of Junior Achievement Bulgaria and gave the chance to ambitious young people to participate in real working processes and projects and to make their first steps towards choosing a profession.

It is important for the Group to make sure that its employees consider their job rewarding and satisfying. To this purpose, the Group organizes corporate team-building events and other initiatives that support team development and promote a feeling of "belonging".

The Group's employees are treated with respect and care. Additional health care plans and preventive health care check-up packages are avialable for the staff, as well as sport opportunities with preferential rates.

In terms of remuneration policy, the Group has introduced bonus and incentive scheme payment along with hourly payment. For administrative and headquarters staff, hourly rate payment is used – payment based on the number of hours worked, which can be 4, 6 or 8 hours per day. This payment scheme does not measure the amount of work, but only the time devoted to labour. For all sales and collection-related positions, the scheme combines bonus and hourly rate payment. Remuneration is divided into two parts: the first is a guaranteed minimum wage based on work hours and the second is a bonus payment which is determined based on quantitative and qualitative indicators.

In order to ensure workplace safety and health, the Group has engaged external occupational health services for its structures in Bulgaria, Romania and Greece. They provide the necessary recommendations, trainings and document drafting related to the creation and maintenance of employees' personal health records, the preparation of annual analysis of employees' health status on the basis of the results of preliminary and regular preventive health care check-ups and examinations, the indicators for permanent or temporary incapacity for work and their relation to working conditions, records for occupational illnesses and traumas. External occupational health services also recommend qualified medical practitioners, clinical and instrumental examinations necessary for conducting mandatory preliminary check-ups and regular medical examinations of employees. They also determine the frequency of the mandatory check-ups, depending on the potential health risk level. Occupational health services draw conclusions as to the suitability of an individual for a given position and the activities related to it based on the results from the mandatory preliminary medical examination and on the results from the conducted health check-ups. They also lay down a system of workplace safety and health rules, regulations and instructions.

The Group has established and maintains several internal communication channels. In this way, the employees are always kept informed of important ongoing projects. They can also address questions and receive answers.

An idea-sharing platform has been created, aiming at optimizing workflows, where employees have the opportunity to come up with well-grounded suggestions, make recommendations, give ideas and describe them in detail. A commission is set up to look at all proposals and to take decisions for follow-up steps, while the employees themselves get feedback in full transparency and are able to participate actively in the process of their realization.

Environmental protection policies and activities

Sustainable business development is much more valuable for TBI Bank EAD and its subsidiaries than short-term profitability and other commercial benefits. We believe that our duty to protect our nature is a key element of our concern for the well-being of all stakeholders and the entire society. That is why we strive to reduce the negative environmental impact of our activities and to use every opportunity to contribute to the protection of our natural surroundings.

The companies in the group of TBI Bank EAD, like any other company, leave their mark on the environment. This is mainly due to the consumption of energy and water resources, the use of paper and other materials related to the day-to-day operations of the Group. The state of our offices, the efficiency of the equipment and vehicles used also have an impact.

Over the last years, we have made efforts to modernize our offices and headquarters. We introduced the use of high-performance air conditioning systems and building management systems, we renovated thermal insulation and lighting. As a result of these renovations, total energy consumption has been reduced.

In addition to the reduction of energy consumption, for many of the internal processes, we use electronic document exchange, which is also part of our strategic understanding of digitization of the business and operating processes. Today we offer our customers a high level of service and innovative banking products, using significantly fewer resources. Paper is not used in most work processes, and where paperless data exchange is impossible, it is limited to the minimum. All these optimizations have significantly reduced the use of paper in the Group.

After optimizing its own processes, the Group would like to help both its customers and partners to change the way they think and do business in an environmentally friendly way. The Group encourages them to use innovative technical solutions and to reduce the consumption of paper and other resources used in their business operations.

We find it important to be close to our customers and partners. This requires the frequent use of vehicles. Since the establishment of the Group, its employees have been using vehicles with fuel-efficient engines. As a further step to lessen the impact on the environment, the Group is in a continuous process of replacing its vehicle fleet with more economical cars which meet the highest European Union exhaust emission standards.

TBI Financial Services B.V group, part of the 4Finance financial group, can boast about its significantly improved environmental performance and we are fully determined to transfer and improve its best practices to the markets we operate in. In this regard, we commit ourselves to setting appropriate goals and objectives, continuously monitoring, assessing and enhancing our environmental performance and strictly complying with all local, national and international legislation in the field.

As a socially responsible institution, we are committed to using our influence and sharing our experience in order to work for the protection and preservation of the world that we are going to leave to our children. To this purpose, we will not only adhere to an environmentally responsible policy in our day-to-day business operations, but will gradually extend it to our customers, partners, suppliers and the entire society to help enforce environmentally friendly business practices and achieve sustainable economic growth.

Social issues policies and activities

TBI Bank EAD and its subsidiaries' customers are at the heart of the Group's activities and the main priority of our management is to make their lives simpler, faster and better. As customers become more and more digitally oriented in their daily lives, their expectations with regards to banking services are also evolving and the goal of TBI Bank EAD is to use a wider range of technologies to meet their needs.

In its customers relations, the Group has devoted itself to conveying pro-social messages and establishing ethical business standards. It acts in a socially responsible way by using all of its available channels of communication.

TBI Bank EAD also makes efforts in connection with a number of initiatives aiming to encourage and improve financial literacy among consumers in general and Bulgarian students in particular in order to provide them with better strategies for taking informed and effective financial decisions.

The main objective of the Group is the building and development of successful teams of talented people from diverse backgrounds which will be able to contribute to the achievement of positive business results. A basic belief in our corporate culture is that talent is not connected with origin, race, sexual orientation, abilities, beliefs, generations and experiences. The working environment in the Group is based on mutual respect and acceptance, through which employees can develop their personal skills and abilities.

Acceptance and diversification allow the Group to strengthen its relations with its customers, partners, and the community in which it operates.

Regulation (EU) 2020/852 disclosures:

- In 2022 the Group does not have any revenue from environmentally sustainable economic activities under Regulation (EU) 2020/852, dated 18 June 2020.
- In 2022 the Group does not have any capital or operating expenditures related to the activities above, nor has created any plans for such expenditure.
- In 2022 the Group has not acquired any products or services from environmentally sustainable economic activities.

The Group is in process of analysis of the key performance indicators with regard to the requirements of Delegated Regulation (EU) 2021/2178 supplementing Regulation (EU) 2020/852 on the establishement of a framework to facilitate sustainable investments.

Valentin Galabov
(executive director and
management board member)

Nikolay Spasov
(executive director and
management board member)

1. Corporate profile

TBI Bank EAD (the Bank) is a sole-owner joint-stock company, established in line with the regulations of the Republic of Bulgaria, which conducts its business in Bulgaria as well as abroad under a license obtained from the Bulgarian National Bank.

2. Capital structure

As of 31 December 2022, the issued capital of the Bank amounts to BGN 81,600,000, with total amount of dematerialised shares of 81,600,000 (eighty-one million and six hundred thousand), each with nominal value of BGN 1. The Bank has the right to issue only ordinary shares, each of which gives the owner the right of 1 vote in the general shareholders meeting. As of 31 December 2022, the sole owner of the issued capital of the Bank is TBI Financial Services B.V., the Netherlands. The ultimate parent company of the Bank is Tirona Limited, Cyprus.

3. Rights and obligations of the shareholders

The shareholder owns all rights and obligations set by the Bulgarian law regulations, other legislation and the Bank's articles of association.

4. Organizational structure of the Bank

TBI Bank EAD has a two-tier governance structure. All members of the supervisory and management boards of the Bank meet the requirements of the Law on Credit Institutions as well as of Ordinance 20 of the Bulgarian National Bank.

The Bank's structure consists of:

- general meeting of the shareholders;
- supervisory board;
- management board;
- other structural units, set by the general meeting of the shareholders, the supervisory board or the management board.

The sole shareholder is the supreme governing body of the Bank, which makes the fundamental decisions concerning the existence and operations of the company.

The annual general meeting of the shareholders takes place no later than six months after the closing of the financial year, unless otherwise provided for by law. The management board of the Bank convenes an extraordinary general meeting of the shareholders if:

- the issued capital of the Bank falls below the regulatory limit;
- this is requested by the sole shareholder;
- this is requested by any other person, authorized by law.

The sole shareholder has the right to:

- change or supplement the articles of association of the Bank;
- increase or decrease the issued capital;
- decide on any merger, demerger, transformation or closure of the Bank;
- appoint and dismiss the members of the supervisory board and establish their remuneration;
- appoint and dismiss the auditors of the Bank and sets their remuneration;
- approve the financial statements of the Bank and decide on profit distribution;
- discharge the members of the supervisory and management boards;
- decide regarding claims against members of the supervisory or management boards, or a shareholder of the Bank;
- decide regarding the issuance of bonds;
- appoint liquidators if the Bank faces closure, except in case of bankruptcy;
- decide regarding any other questions within the powers of the general meeting of shareholders set by the law.

The supervisory board exercises control over the main activities of the Bank and the management board. The supervisory board sets high corporate culture and business ethics with established ethical norms and corporate values for business behaviour. The supervisory board elects and dismisses the members of the management board in line with the principles of continuity of its work.

The main functions of the supervisory board are:

- to perform supervisory functions and to represent the Bank in its relationship with the management board;
- to set the main targets regarding the operations of the Bank and to set the strategy for their achievement;
- to approve the decisions of the management board, which are within the responsibility of the supervisory board in line with the articles of association of the Bank, the regulations for the activity of the supervisory board and the law.

The supervisory board consists of at least three and no more than seven members. The members of the supervisory board are appointed and dismissed by the general meeting of the shareholders. The members of the supervisory board are elected for a term of five years. The supervisory board of TBI Bank EAD is comprised of people with the proper qualification and professional experience, in compliance with the Bank's operations and the main risks which it faces or could face.

The members of the supervisory board bear joint and individual liability by law for each damage caused by violating the requirements of the law or of the articles of association of the Bank, or due to non-performance of their obligations. The members of the supervisory board are obliged to work objectively, critically and independently, while avoiding conflict of interest and in case this is not possible, disclosing the latter promptly.

The members of the supervisory board elect the chairperson of the supervisory board who organizes the work of the board. The members of the supervisory board may also elect deputy chairpersons of the supervisory board replacing the chairperson if the latter is absent.

The management board manages the daily operations of the Bank in accordance with the strategy and the basic principles of activity established by the supervisory board and oversees the daily activities of the employees of the Bank.

- The management board is authorized to decide on all matters related to the operations of the Bank and to perform transactions independently within its powers under the law, the Bank's articles of association and rules of procedure of the management board, as approved by the supervisory board.
- The management board establishes the risk policy and sets up risk management and internal control systems.
- The management board provides guidance, approves and oversees the implementation of the company's business plan, material transactions and other activities set out in the Bank's strategy.
- The management board reports to the supervisory board and the general meeting of the shareholders. The management board shall submit to the supervisory board at least once every three months a report on the business activity and position of the Bank and shall immediately inform the supervisory board of any significant deterioration of the financial position of the Bank and other important circumstances regarding the economic activities of the Bank.

Management board members are elected by the supervisory board for a term of office of five years. The management board consists of at least three members but not more than seven members. At least two members of the management board shall be the executive directors (executive members), and the Bank shall only be represented by two executive directors jointly.

The members of the management board, with the approval of the supervisory board, shall elect among themselves the executive directors, the chairperson of the management board and the deputy chairperson of the management board, standing in for the chairperson when the latter is absent. Executive directors may only be individuals who have received appropriate prior approval from the Bulgarian National Bank to manage and represent the Bank under the terms provided for in effective legislation. The management board members are established professionals with proven leadership qualities, and represent a main prerequisite for meeting the Bank's objectives.

Management board members must avoid actions that will or may create a conflict of interests with the Bank. In the event that such a conflict arises, they should disclose it and should not participate in the discussion and decision-making process.

Committees and commissions:

- As a public interest entity under the Law on Independent Financial Audit, the Bank operates an **audit committee**, which is responsible for the monitoring of financial reporting and the independent financial audit as well as the effectiveness of the internal audit function and the Bank's control systems and risk management. The committee recommends the choice of registered auditors to conduct an independent audit of the Bank and monitors their independence in accordance with the law and the Code of Ethics for Professional Accountants. As at the date of the preparation of the financial statements, the jointly appointed auditors have an engagement, approved by the Audit Committee, for agreed-upon procedures in accordance with the requirements of Ordinance 10 of the Bulgarian National Bank on the Internal Control in Banks. The purpose of the audit committee is to assist and advise the general meeting of the shareholders in its oversight of the activities of the Bank.
- **Impairment committee** – the body that decides on the classification and provisioning of the Bank's risk exposures.
- **Lending committee** – the body that is empowered to approve the origination of risk exposures to corporate customers. Credit exposures based on preset limits are subject to subsequent approval by the management board and/or must be confirmed by the supervisory board.
- The **assets and liabilities management committee** is responsible for the overall operation of the balance sheet of the Bank and monitors interest rates and liquidity in accordance with its competence and the organizational structure referred to in the internal rules of the institution.
- A specific unit is **responsible for the prevention of money laundering and financing of terrorism** and the management of the related compliance risk.
- The specialized **work safety unit** is responsible for the compliance with the statutory requirements in this area.
- **The retail banking committee** is responsible for the coordination of activities related to the service provision to individuals, who are Bank's customers, and particularly for the development of a product range, initiating various campaigns and calibrating risk appetite.
- **Tender committee** – authorized to take decisions related to the choice of suppliers and renewal of supplier contracts based on the tenders made.

5. Audit and internal control

The Bank establishes and improves a reliable and comprehensive internal control framework, which includes control functions with the necessary powers and access for execution of its responsibilities independently of the structural and supporting units that are being monitored and controled. The risk management processes, procedures and requirements are structured in accordance with the principle of "three lines of defence". The control functions are not only independent from the operational business units, which they supervise and control but they are also organisationally independent from each other.

The financial auditors are elected by the general meeting of the shareholders. The financial auditors perform an independent financial audit, the purpose of which is to express an independent audit opinion as to the true and fair presentation in all material respects in the financial statements of the financial position, financial result, cash flows and equity of the Bank. The financial auditors are audit firms independent from the Bank.

6. Information systems

The Bank is dependent on complex information systems, and a possible crash, ineffectiveness or failure of these systems may have significant unfavourable impact.

Information systems in general are exposed to multiple problems, such as computer virus corruption, hacker attacks, software and hardware malfunctions. Each deficiency, interruption and security violation of these systems might lead to problems or interruptions in customer relations, risk management, book-keeping and deposits and loans servicing. In case of an interruption in the normal functioning of the information systems of the Bank, even for a short period of time, the Bank may possibly become incapable for a certain time to provide service and thus lose its customers. Temporary interruption of the functioning of the information systems may also result in extraordinary expenses for recovery and confirmation of the information. Furthermore, any failure of the Bank to update and develop the existing information systems as effectively as its competitors, might lead to loss of its market share. Although the Bank's management believes that adequate security program and business continuity plan are in place, including fully equipped information centre duplicate, there is no certainty that they will be sufficient to prevent problems, such as the above-mentioned, nor do they guarantee that the Bank's operations will not be significantly interrupted.

Each of the above-mentioned or other problems, related to the information systems of the Bank, might have significant adverse impact on the Bank's activities, its performance and financial position.

7. Remuneration policy

The Bank's remuneration principles are structured in such a way, so as to contribute to sensible corporate governance and risk management. TBI Bank EAD applies a remuneration policy in accordance with the Credit Institutions Act and Ordinance 4 of BNB on the requirements on the remuneration in banks, which is consistent with the business strategy, objectives, values and long-term interests of the Bank, by encouraging reliable and effective risk management, and demotivating risk-taking behaviour, exceeding the levels acceptable for the Bank.

The main objective of the policy is the recruitment and retention of highly qualified personnel, its motivation for high performance combined with moderate risk levels and in line with the long-term interests of the Bank and its shareholders. It is based on the principles of transparency, prevention of conflict of interest, equal treatment of employees, documentation, objectivity, and reliable risk management.

The policy establishes the main principles for forming of remuneration – fixed and variable, in accordance with the objective of the Bank to stick to an optimal proportion between these two types of remuneration, ensuring a sufficiently high share of the fixed component for the different personnel categories, and higher flexibility of the variable part, including possibility for non-payment. Remuneration is based not only on the financial results, but on the ethical norms and corporate values underlying the Bank's Code of Ethics, as well as on the reliability and efficiency of risk management.

8. Disclosure of information

Transparency and timely disclosure of information is a key corporate governance principle. The Bank maintains a system for the disclosure of information in accordance with effective regulations, which is aimed at providing timely, accurate and understandable information about significant events, allows for objective and informed decisions, ensures equal access to information and does not tolerate abuses of inside information. In disclosing information, the Bank is guided by the principles of accuracy, accessibility, equality, timeliness, integrity and regularity.

The Bank's website provides:

- information about the activities and history of the Bank;
- information about the shareholder structure;
- information about the governance bodies and structure of the Bank;
- financial statements for the last three financial years at the least;
- information on upcoming events and initiatives;
- other important information, related to the Bank's operations.

9. Stakeholders

TBI Bank EAD applies a policy for provision of information to interested stakeholders. These include persons who are not shareholders but have an interest in the economic development of the Bank, such as creditors, customers, employees, society in general, etc.

10. Information on compliance in substance with the national corporate governance code approved by the deputy chairperson of the Financial Supervision Commission in art. 10n, paragraph 8 of the Public Offering of Securities Act

TBI Bank EAD is not a public company and has no legal obligation to apply the provisions of the

National Corporate Governance Code (NCGC) approved by the deputy chairperson of the Bulgarian Stock Exchange – Sofia. However, the corporate governance policy of TBI Bank EAD is based on professional and transparent governance in accordance with internationally recognised standards, good banking practice and where appropriate with the principles underlying the NCGC. Since the Bank is a sole-owner joint-stock company, any requirements regarding shareholders' rights protection, as well as publishing and disclosure of information concerning the shareholders are not applicable.

The main corporate governance principles are established in the following internal documents of the Bank:

- articles of association;
- corporate governance policy;
- organizational structure;
- Code of Ethics of the administrators and employees;
- remuneration policy.

The corporate governance policy of TBI Bank EAD is the overall document containing the recognised standards of good and responsible governance and setting the rules, criteria and mechanisms for the corporate governance function of the Bank.

The objective of the policy is to regulate the corporate governance process as one of the key business functions and to outline the fundamental principles and requirements for maintaining and improving the organization and governance methods of TBI Bank EAD. The Policy also aims to structure the basic components, functions and responsibilities comprising the corporate governance system of the Bank. Its implementation contributes to the objectives and plans that are in the interest of the Bank as a whole, its customers, shareholders, creditors, local and foreign stakeholders, and to facilitate the control over the efficient use of resources.

The policy defines the general principles and mechanisms of corporate governance of the Bank, such as:

- standardisation and harmonization of the corporate governance process;
- identification of key business objectives within the "Planning and reporting" business line.

As part of the objectives set, the Bank's management board determines key performance indicators such as growth, return on equity, provisioning level, market share etc., providing a basis for the development of concrete business plans, and for the governance bodies – a possibility to control these plans in accordance with the Policy.

11. Internal control

Internal control includes the following components:

- Control environment – a description of the control environment can be found in the "Audit and internal control" section of the Corporate governance declaration;
- Risk assessment process – a description of the control risk assessment of the Bank can be found in the "Audit and internal control" section of the Corporate governance declaration as well as in the "Liquidity and risks" section of the Consolidated annual management report;
- Information systems, including the related business processes relevant to financial reporting and communication – a description of the information systems of the Bank can be found in the "Information systems" section of the Corporate governance declaration;
- Control activities – a description of the control activities of the Bank can be found in the "Audit and internal control" section of the Corporate governance declaration as well as in the "Liquidity and risks" section of the Consolidated annual management report;
- Current monitoring of controls – a description of the current monitoring and control of the Bank can be found in the "Audit and internal control" section of the Corporate governance declaration as well as in the "Liquidity and risks" section of the Annual management report.

(signatures on the next page)

Valentin Galabov
(executive director and
management board member)

Nikolay Spasov
(executive director and
management board member)

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Independent auditors' report

To the sole shareholder of

TBI Bank EAD

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of TBI Bank EAD and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

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

Translation in English of the official Auditor's report issued in Bulgarian.

Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers under the requirements of IFRS 9 The Group's disclosures about impairment of loans to customers are included in Note 14 "Loans to customers", Note 16 "Credit loss expense on financial assets" and Note 3. "Significant accounting judgements, estimates and assumptions" to the consolidated financial statements.	
Loans to customers (mainly through the parent company/Bank) represent a significant part (67%) from the total assets of the Group as at 31 December 2022 with aggregate gross value of BGN 1,536,753 thousand and accumulated loss allowance of BGN 137,841 thousand. The Group applies an impairment model based on expected credit loss (ECL) estimation in accordance with the requirements of IFRS 9 "Financial instruments". The application of such impairment model has caused an increased level of complexity and significant degree of management judgment in the ECL estimations as disclosed in Note 3 "Significant accounting judgements, estimates and assumptions". The key inputs and areas of judgement in the model relate to development of quantitative and qualitative criteria for identification of significant increase of	In this area, our audit procedures included, amongst others: • Obtaining an understanding and performed walk throughs of the Group's established processes and controls over the monitoring and assessment for impairment of loans to corporate and retail customers as well as the applied key assumptions and judgements in accordance with the requirements of IFRS 9. • Evaluating whether the Group's impairment policy and estimation approaches were applied consistently in accordance with the requirements of IFRS 9. • Assessing the entity level internal controls in relation of the use and application of the impairment models including the documentation as well as the

credit risk (SICR) for staging of loans and advances to customers (Stage 1: Exposures with no SICR, Stage 2: Exposures with SICR but no objective evidence for impairment and Stage 3: Exposures with objective evidence for impairment), determining the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD), incorporating forward looking information (FLI) of macro-economic factors considering multiple scenarios in ECLs estimations. Higher degree of estimation uncertainty is involved in calculating the ECLs for the portfolio of loans to clients in Stage 1, Stage 2 and Stage 3 portfolio assessed for impairment collectively in view of the availability of historical data for back testing and calibrating the PD and LGD estimates. In addition, significant management judgement is also required in calculating the ECLs for loans to clients which are assessed for impairment individually due to inherent estimation uncertainty in determining the timing and amount of the expected cash flows, as well as the value of the respective collaterals. In 2022 the social and economic consequences from the continuing crisis have been considered by the Group (via the Bank) upon measurement of the ECL. The Group (via the Bank) has addressed the uncertainties from the consequences due to the expected deterioration of the macro-economic indicators by reassessing the assumptions for probability of default (PD) and enhancing its credit risk monitoring procedures to distinguish the cases/indications that are related to long-term financial difficulties of the borrowers from those that represent temporary liquidity difficulties.	frequency of updating and reasonability of the FLI parameters and macro factors. • Gaining an understanding and walk-through of the identified controls of the Group in relation to the monitoring and impairment of loans of corporate and retail clients in accordance with the requirements of IFRS 9. • Assessment of the design and testing the operating effectiveness of the key controls over the monitoring and assessment for impairment of loans to corporate and retail customers in accordance with the requirements of IFRS 9. We involved our IT specialists to assess and test the IT general controls over the Group's system for loan monitoring used for IFRS 9 purposes. • We performed analytical procedures on a disaggregated detailed data to evaluate if the trends in the impairment expense and allowance follow the development of the loan portfolios of the Group (mainly of the Bank) and reflecting the impact from the development of the macro-economic indicators during 2022. • We assessed for a sample of loans whether those were correctly classified to the respective stage for impairment under the SICR criteria used by the Group (through the Bank) in accordance with the requirements of IFRS 9 as of 31 December 2022.

Due to the significance of the loans and advances to customers, the high degree of estimation uncertainty, complexity and management judgement involved in ECL calculations under the impairment model applied in accordance with the requirements of IFRS 9, this is considered as a key audit matter.	• For a risk-based sample of corporate loans to clients that were subject to an individual impairment assessment and focusing on those with the most significant potential impact on the consolidated financial statements, we specifically assessed the Group's assumptions on the expected future cash flows, including the realizable value of collateral based on our own understanding and available market information, including the impact from the consequences due to the expected deterioration of the macro-economic indicators. • We performed subsequent events procedures focused on the development of the sampled loans from the Corporate portfolio after the reporting period date to assess the consistency of the Group's assumptions on the expected future cash flows. • For the retail loans we evaluated the impairment model applied by the Group (via the Bank) for the calculation of collective impairment losses. We focused on assessing the reasonableness of the PD and LGD calculations by examining the supporting information for the key assumption applied and data sources, including for consideration of uncertainties from the consequences due to the expected deterioration of the macro-economic indicators where applicable. We also analysed whether the FLI has been correlated and considered in the collective impairment model. In addition, we tested the mathematical accuracy of the collective ECL calculations.

	• We reviewed the back-testing analysis performed by the Group's management for the applied assumptions related to the LGD on the retail loan portfolio for the purpose of assessing whether the estimated collective impairment loss was reasonable. • We assessed the relevance and adequacy of the disclosures in the Group's consolidated financial statement for the impairment of corporate and retail loans to customers in accordance with the requirements of IFRS 9.

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

Management is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the consolidated management report, including the corporate governance statement and the consolidated non-financial declaration prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and presentation of the consolidated financial statements that give a true and fair view in accordance with IFRS, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly and severally responsible for the performance of our audit and for the expressed by us audit opinion as per the requirements of the IFAA applicable in Bulgaria. In accepting and executing the joint audit engagement, in connection with which we report hereby, we also have followed the Guidance on Performing a Joint Audit issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Consolidated Financial Statements and Auditor's Report Thereon* section, in relation to the consolidated management report, including the corporate governance statement of the Group and the consolidated non-financial declaration , we have also performed the procedures added to those required under ISAs in accordance with the Guidelines on New and Expanded Auditor's Reports and Auditor's Communication of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act applicable in Bulgaria.

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

Based on the procedures performed, our opinion is that:

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

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

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

- Ernst & Young Audit OOD and AFA OOD were appointed as statutory auditors of the consolidated financial statements of TBI Bank EAD (the Bank) for the year ended 31 December 2022 by the general meeting of shareholders held on 14 November 2022 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2022 represents seventh total uninterrupted statutory audit engagement for that group carried out by Ernst & Young Audit OOD and sixth total uninterrupted statutory audit engagement for that group carried by AFA OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the audit committee of TBI Bank EAD, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Group.

Audit Firm Ernst & Young Audit OOD:	Audit Firm AFA OOD:
Milka Natcheva-Ivanova	Valia Iordanova
Legal Representative and	Legal Representative and
Registered Auditor in charge of the audit	Registered Auditor in charge of the audit

Sofia, Bulgaria

9 August 2023

Translation in English of the official Auditor's report issued in Bulgarian.

Consolidated annual financial statements (in BGN'000)

Consolidated statement of comprehensive income
for the year ended 31 December 2022

	Notes	2022	2021
Interest income calculated using the EIR method and similar income	4	272,081	217,849
Interest expense calculated using the EIR method and similar expense	4	(23,053)	(13,466)
Net interest income		**249,028**	**204,383**
Fee and commission income	5	79,131	57,898
Fee and commission expense	5	(12,517)	(19,126)
Net fee and commission income		**66,614**	**38,772**
Net trading losses	6	(12,780)	(2,096)
Other losses, net	7	(1,850)	(1,705)
Net operating income before impairment		**301,012**	**239,354**
Credit loss expense on financial assets	16	(62,154)	(51,333)
Impairment losses on other assets	18	(2,018)	(214)
Net operating income		**236,840**	**187,807**
Personnel expenses	8	(89,493)	(73,540)
Depreciation and amortisation expenses	19, 20	(8,171)	(7,084)
Other operating expenses	9	(55,983)	(39,508)
Total operating expenses		**(153,647)**	**(120,132)**
Profit before tax	10	**83,193**	**67,675**
Income tax expense	10	(11,934)	(13,904)
Profit for the year		**71,259**	**53,771**
Attributable to:			
Equity holders of the parent		71,259	53,771
Non-controlling interest		–	–
		71,259	**53,771**

(continued on the following page)

Notes 1 to 34 form part of, and should be read in conjunction with, these consolidated financial statements.

Financial statements on which we have issued an Auditors' Report dated: 9 August 2023.

Audit firm „Ernst & Young Audit" OOD	Audit firm „AFA" OOD

Consolidated annual financial statements (in BGN'000)

Consolidated statement of comprehensive income (continued)
for the year ended 31 December 2022

	Notes	2022	2021
Profit for the year		**71,259**	**53,771**
Other comprehensive income (OCI)			
To be reclassified to the profit or loss			
Exchange differences on translation of foreign operations		(75)	(466)
Net loss on financial assets at fair value through OCI		(12,348)	(2,628)
Income tax relating to the above		1,231	219
Not to be reclassified to the profit or loss			
Net gain on financial assets at fair value through OCI		–	656
Income tax relating to the above		–	(66)
Other comprehensive income for the year, net of tax	28	**(11,192)**	**(2,285)**
Total comprehensive income for the year, net of tax		**60,067**	**51,486**
Attributable to:			
Equity holders of the parent		60,067	51,486
Non-controlling interest		–	–
		60,067	**51,486**

Valentin Galabov
(executive director and
member of the management board)

Nikolay Spasov
(executive director and
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Yordan Stoyanov
(preparer)

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Financial statements on which we have issued an Auditors' Report dated: 9 August 2023.

Audit firm „Ernst & Young Audit" OOD	Audit firm „AFA" OOD

Consolidated annual financial statements (in BGN'000)

Consolidated statement of financial position
as at 31 December 2022

	Notes	2022	2021
Assets			
Cash and balances with central banks	11	359,379	208,230
Due from banks	12	69,806	33,066
Derivative financial instruments	2.2	9,570	5,566
Financial assets at FVOCI	13	133,670	108,070
Loans to customers	14	1,398,912	957,029
Finance lease receivables	15	4,192	5,140
Current tax assets	10	1,203	219
Other assets	21	50,663	20,307
Assets acquired from foreclosure on collateral	18	8,697	8,887
Deferred tax assets	10	3,236	990
Intangible assets	19	27,422	16,672
Property and equipment	20	28,403	23,574
Total assets		**2,095,153**	**1,387,750**
Liabilities			
Due to banks	22	–	13,042
Derivative financial instruments	2.2	11,322	6,050
Due to customers	23	1,557,523	955,714
Current tax liabilities	10	1,348	3,885
Other liabilities	24	95,588	62,645
Lease liabilities	25	11,137	9,422
Subordinated debt	26	60,561	19,829
Total liabilities		**1,737,479**	**1,070,587**
Equity			
Issued capital	29	81,600	81,600
Statutory reserves	29	8,392	8,392
Unrealized revaluation reserve on financial assets at FVOCI	29	(10,512)	605
Realized revaluation reserve on financial assets at FVOCI	29	(7,367)	(7,367)
Translation reserve from foreign operations	29	(1,646)	(1,571)
Retained earnings		287,207	235,504
Equity attributable to the owners of the parent		**357,674**	**317,163**
Non-controlling interest		–	–
Total equity		**357,674**	**317,163**
Total equity and liabilities		**2,095,153**	**1,387,750**

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Financial statements on which we have issued an Auditors' Report dated: 9 August 2022.

Audit firm „Ernst & Young Audit" OOD	Audit firm „AFA" OOD

Consolidated annual financial statements (in BGN'000)

Consolidated statement of changes in equity
for the year ended 31 December 2021

	Share capital (Note 29)	Statutory reserves (Note 29)	Unrealized revaluation reserve on financial assets at FVOCI (Note 29)	Realized revaluation reserve on financial assets at FVOCI (Note 29)	Translation reserve from foreign operations (Note 29)	Retained earnings	Attributable to the equity holders of the parent
At 1 January 2021	**81,600**	**8,392**	**(4,943)**	**–**	**(1,105)**	**181,733**	**265,677**
Profit for the year	–	–	–	–	–	53,771	53,771
Other comprehensive income, net of tax	–	–	(1,819)	–	(466)	–	(2,285)
Total comprehensive income for the year	–	–	(1,819)	–	(466)	53,771	51,486
Sale of financial assets at FVOCI	–	–	7,367	(7,367)	–	–	–
At 31 December 2021	**81,600**	**8,392**	**605**	**(7,367)**	**(1,571)**	**235,504**	**317,163**

(continued on the following page)

Notes 1 to 34 form part of, and should be read in conjunction with, these consolidated financial statements.

Financial statements on which we have issued an Auditors' Report dated: 9 August 2023.

Audit firm „Ernst & Young Audit" OOD	Audit firm „AFA" OOD

Consolidated annual financial statements (in BGN'000)

Consolidated statement of changes in equity (continued)
for the year ended 31 December 2022

	Share capital (Note 29)	Statutory reserves (Note 29)	Unrealized revaluation reserve on financial assets at FVOCI (Note 29)	Realized revaluation reserve on financial assets at FVOCI (Note 29)	Translation reserve from foreign operations (Note 29)	Retained earnings	Attributable to the equity holders of the parent
At 1 January 2022	**81,600**	**8,392**	**605**	**(7,367)**	**(1,571)**	**235,504**	**317,163**
Profit for the year	–	–	–	–	–	71,259	71,259
Other comprehensive income, net of tax	–	–	(11,117)	–	(75)	–	(11,192)
Total comprehensive income for the year	–	–	(11,117)	–	(75)	71,259	60,067
Dividends paid	–	–	–	–	–	(19,556)	(19,556)
At 31 December 2022	**81,600**	**8,392**	**(10,512)**	**(7,367)**	**(1,646)**	**287,207**	**357,674**

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Financial statements on which we have issued an Auditors' Report dated: 9 August 2023.

Audit firm „Ernst & Young Audit" OOD	Audit firm „AFA" OOD

Consolidated annual financial statements (in BGN'000)

Consolidated statement of cash flows
for the year ended 31 December 2022

	Notes	2022	2021
Cash flows from operating activities			
Profit for the year		71,259	53,771
Adjustments for non-cash transactions:			
Credit loss expense on financial assets	16	62,154	51,333
Impairment of non-financial assets		2,018	(214)
Depreciation and amortization, excl. right-of-use assets	19,20	4,588	3,694
Depreciation of right-of-use assets	20	3,583	3,390
Net loss on derecognition of other assets	7	13	802
Provisions expense	7	62	3,745
Accruals on short-term employee benefits	24	6,518	5,646
Unrealized gains from foreign exchange revaluation		(182)	(468)
Income tax expense	10	11,934	13,904
		90,688	81,832
Net decrease/(increase) in operating assets:			
Statutory reserves with central banks	11	(39,475)	(23,845)
Due from banks (with maturity over 3 months)	12	(33,992)	311
Loans to customers	14	(504,077)	(317,201)
Finance lease receivables	15	948	4,481
Securities at FVPL	13	–	4,940
Financial assets at FVOCI	13	(36,677)	43,005
Assets acquired from foreclosure on collateral	18	190	(1,278)
Derivative financial instruments	2.2	1,268	(1,803)
Other assets	21	(32,234)	(2,826)
		(644,049)	(294,216)
Net increase/(decrease) in operating liabilities:			
Due to banks	22	(13,042)	(18,297)
Due to customers	23	601,809	222,523
Other liabilities	24	28,575	7,268
		617,342	211,494
Other adjustments:			
Income tax paid	10	(16,470)	(9,346)
Net cash flows from operating activities		**118,770**	**43,535**

(continued on the following page)

The notes on pages 1 to 34 form an integral part to the accompanying consolidated financial statements.

Financial statements on which we have issued an Auditors' Report dated: 9 August 2023.

Audit firm „Ernst & Young Audit" OOD	Audit firm „AFA" OOD

Consolidated annual financial statements (in BGN'000)

Consolidated statement of cash flows (continued)
for the year ended 31 December 2022

	Notes	2022	2021
Cash flows from investing activities			
Purchase of intangible assets	19	(14,612)	(5,992)
Purchase of property and equipment	20	(5,537)	(2,762)
Net cash flows used in investing activities		**(20,149)**	**(8,754)**
Cash flows from financing activities			
Dividends paid		(19,556)	–
Payments made on lease contracts	25, 30	(5,046)	(4,255)
Issuance of subordinated debt	26, 30	40,528	19,829
Net cash flows from financing activities		**15 926**	**15 574**
Net change in cash and cash equivalents		114,547	50,355
Foreign exchange differences		(125)	–
Cash and cash equivalents on 1 January	30	141,208	90,853
Cash and cash equivalents on 31 December	30	**255,630**	**141,208**
Additional information on cash flows from:			
Interest paid		(21 789)	(12,097)
Interest received		283 027	218,928

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Financial statements on which we have issued an Auditors' Report dated: 9 August 2023.

Audit firm „Ernst & Young Audit" OOD	Audit firm „AFA" OOD

1. General information and accounting policies

1.1. Corporate information

TBI Bank EAD (the Bank) is a credit institution registered at Sofia City Court, Bulgaria as a joint-stock company on 28 August 2003 with UIC 131134023. The Bank, together with its subsidiaries (the Group) offers a wide range of banking and non-banking financial services to local and foreign customers.

As at 31 December 2022, the Bank holds the controlling interest in the following subsidiaries:

- TBI Money IFN S.A., Romania;
- TBI Asset Management S.A. (till 13 July 2022 called TBI Leasing S.A.), Romania;
- Vivus.bg EOOD (till 23 July 2022 called 4Finance EOOD), Bulgaria; and
- TBI Buy EAD (till 26 January 2022 called Ti Buy EAD), Bulgaria.

The ultimate parent is Tirona Limited, Cyprus wich is the majority shareholder of the 4Finance group of which the Bank is a part.

The Bank is managed by a management board under the supervision of a supervisory board and is represented by any two executive directors jointly. The persons charged with governance are the audit committee (Ariel Hason, Inita Hane and Edgars Dupats) and supervisory board (Ariel Hason, Kieran Donnelly and Gauthier Van Weddingen) members.

The Bank's headquarters and registered office, starting from September 2012, are Bulgaria, Sofia 1421, Dimitar Hadzhikotzev str. 52-54.

1.2. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank's, by applying consistent accounting policies.

The subsidiaries are fully consolidated from the date of acquisition, which is the date on which control is transferred to the Bank, and continue to be consolidated until the date such control ceases. For the accounting treatment of transactions involving entities under common control, see Note 1.26.

1.3. Basis of preparation of the financial statements; statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRIC) as adopted by the European Union. The reporting framework "IFRS as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in par. 8 of its Additional provisions.

The financial statements have been prepared on the historical cost basis, except for the following:

- financial assets at fair value through other comprehensive income;
- financial assets at fair value through profit and loss;
- loans measured at fair value through profit and loss;
- financial assets and liabilities held for sale (derivative financial instruments).

In preparing the financial statements, the Bank's management has assessed its ability to continue as a going concern in the foreseeable future and has judged that there are no material uncertaincies which would cast doubt on the Bank's ability to continue its operations. Consequently, the financial statements have been prepared on going concern basis.

The Bank has also analysed each of its subsidiary's ability to continue its operations as a going concern. Management believes that there are no material difficulties which could impact the subsidiaries' ability to continue their operations.

The Group presents its statement of financial position by degree of liquidity. An analysis of the asset recovery or settlement of liabilities within twelve months after the date of the statement of financial position (current) and after a 12-month period after the date of the statement of financial position (non-current) is presented in the notes to the financial statements.

1.4. Comparability of data

The accounting policies applied by the Group are consistent with those applied during the preceding reporting period.

1.5. Changes in accounting policies and disclosures applicable to reporting periods ending 31 December 2022

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted.

- **IFRS 3 Business Combinations (Amendments)** – update a reference in IFRS 3 to the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** – prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** – specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.
- **Annual Improvements 2018-2020** – make minor amendments to *IFRS 1 First-time Adoption of International Financial Reporting Standards*, *IFRS 9 Financial Instruments*, *IAS 41 Agriculture* and the Illustrative Examples accompanying *IFRS 16 Leases*.

1.6. Standards issued but not yet effective and not early adopted

Standards issued but not yet effective and not early adopted up to the date of issuance of the Group's financial statements are listed below. This listing includes standards and interpretations issued, which the Bank reasonably expects to have an impact on disclosures, financial position or performance when applied for the first time. The Group intends to adopt those standards when they become effective.

IFRS 16 Leases: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to *IFRS 16 Leases*: Lease Liability in a Sale and Leaseback. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted. The amendments have not yet been endorsed by the EU. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued *IFRS 17 Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. The standard is effective, for annual periods beginning on or after 1 January 2023, with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17.

IFRS 17, with the objective to provide an accounting model for insurance contracts that is more useful and consistent for insurers, establishes principles for the recognition, measurement, presentation and disclosure of all types of insurance contracts, as well as of certain guarantees and financial instruments with discretionary participation features. The accounting model is supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and by a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model include the measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows). Also, the model includes a Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss based on insurance contract services provided over the coverage period. Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining coverage period. Amounts that are paid to a policyholder in all circumstances, regardless of whether an insured event occurs (non-distinct investment components) are not presented in the income statement but are recognised directly on the statement of financial position.

Furthermore, the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income will be based on the concept of services provided during the period. Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense. In the statement of financial position, the carrying amounts of portfolios of insurance contracts issued that are assets and those that are liabilities, with the same requirement applying to portfolios of reinsurance contracts held, are presented separately. Finally, IFRS 17 requires extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

Regarding the transition, the Board decided on a retrospective approach for estimating the CSM on the transition date. However, if full retrospective application, as defined by IAS 8, for a group of insurance contracts, is impracticable, an entity is required to choose either the modified retrospective approach or fair value approach. Both provide transitional reliefs.

Finally, in December 2021, the IASB issued amendments to IFRS 17 to add a transition option for a "classification overlay" to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 17. An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application of the amendments to IAS 1 is permitted as long as this fact is disclosed. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

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

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

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

In July 2021 the Board tentatively decided to propose several amendments to the clarifications made in January 2020. In particular, the Board decided to propose that if a right to defer settlement for at least twelve months is subject to an entity complying with conditions after the reporting date, those conditions do not affect whether the right to defer settlement exists at the reporting date for the purpose of classifying a liability as current or non-current.

Additional presentation and disclosure requirements would be applicable in such circumstances. Furthermore, the Board tentatively decided to defer the effective date to no earlier than 1 January 2024 (from 1 January 2023). The Group will analyze and assess the impact of the new amendments on its financial position or performance.

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. An entity should apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, it should also recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

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

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

1.7. Foreign currency transactions

Functional and presentation currency

The items included in the Group's financial statements are measured and presented in Bulgarian leva ("BGN"), which is the functional and presentation currency of the Group.

The Bulgarian lev is pegged to the EURO at an exchange rate BGN 1.95583 to EUR 1 as of 1 January 1999 under the provisions of the BNB Act of 1997.

Transactions and balances

Foreign currency transactions are translated to the functional currency using the exchange rates valid on the dates of the transactions. Foreign currency gains and losses arising as a result of the settlement of such transactions, as well as translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates valid at the year-end, are recognised in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to the functional currency using the exchange rate as of the date of the initial transaction (purchase).

As at 31 December 2022, monetary assets and liabilities denominated in foreign currencies were translated at the official exchange rate quoted by BNB on this date – BGN 1.95583 = EUR 1, BGN 1.83371 = USD 1 and BGN 0.395157 = RON 1 (31 December 2021: BGN 1.95583 = EUR 1, BGN 1.72685 = USD 1 and BGN 0.395197 = RON 1).

The Group's foreign operation assets and liabilities, through its branch and its subsidiaries in Romania, were translated into Bulgarian leva at the closing exchange rate quoted by BNB, valid for the new Romanian leu, respectively through its branch in Greece at a fixed rate of EUR as at 31 December 2022. The foreign operation income and expenses were translated at the average exchange rate for the reporting period, which amounted to BGN 0.396628 for 2022 (2021: BGN 0.39747), respectively for Greece at a fixed rate of EUR. The effects of the translation of the functional currency of the branch into the functional currency of the Group are recognised in other comprehensive income.

1.8. Interest income and expenses

Interest income and interest expenses are recognised in the statement of comprehensive income for all interest-bearing instruments not measured at fair value through profit or loss, based on the accruals principal using the effective interest rate (EIR) method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and allocating interest income or interest expense over the respective time period. The effective interest rate is the rate that discounts exactly the estimated future cash inflows or outflows throughout the expected lifetime of the financial instrument, or a shorter period, as appropriate, to the gross carrying amount of the financial asset or financial liability.

In calculating the effective interest rate the Group makes an estimate of the cash flows taking into account all contractual terms and conditions of the financial instrument (such as, early payment options), excluding any future loan losses. The calculation includes all fees, paid or received between the parties under the contract, which form an integral part of the effective interest rate, the transaction costs and any other premiums or discounts.

The fees on the unutilized portion of loans are deferred (together with the related direct costs) and are recognised as an adjustment to the effective interest rate on the respective loans.

Where credits are identified as impaired, the interest income on them is recognised using the effective interest rate method on the net book value of the instrument, i.e. after deduction of the adjustment for credit loss. Interest income and respectively, interest expense, on securities and other discount instruments includes not only the contractual interest but also amortisation of premiums or discounts on the instruments.

1.9. Fee and commission income and expenses

Fee and commission income comprises mainly agent's commissions, and fees for bank transfers in Bulgarian leva and foreign currency, for cash transactions, and for guarantees and letters of credit, and are recognised under the accrual principle or on the transfer date, as appropriate.

The Group has identified the following four performance obligations under IFRS 15:

- Transaction-related services – revenue is recognised at a certain point in time since the customer simultaneously receives and consumes the transaction benefits due to the short-term period of performance of the service. The fees for these services are determined according to the Group's Tariff and represent a fixed amount per transaction that corresponds to the value of the benefit transferred to the customer. Considering these circumstances, the Group uses the practical expedience in IFRS 15, par. B16, to recognise revenue upon performing the transaction at an amount equal to that which it has the right to withhold in accordance with the Tariff.

- Issuance of guarantees and letters of credits – revenue is recognised at a certain point in time when the customer simultaneously receives and consumes the benefits. The fees for these services are fixed amounts calculated according to the value of the guarantee or letter of credit. When benefits are transferred to the customer evenly over the duration of the contract, the Group applies a straight-line method to measure the progress of the contract leading to straight-line amortisation of the fees for the agreed period.
- Maintenance of deposits – revenue is recognised at a certain point in time since the customer simultaneously receives and consumes the benefits. The fees for these services are determined according to the Group's Tariff and represent a fixed monthly amount that reflects the value of the benefit transferred to the customer. Considering these circumstances, the Group uses the practical expedience in IFRS 15, par. B16, to recognise revenue upon performing the transaction at an amount equal to that is has the right to withhold in accordance with the Tariff.
- Activities as an agent, for which the Group receives agent's commissions – revenue is recognised at a certain point in time upon provision of the service since the Group operates as an agent. The Group recognises revenue equal to the amount of the agent's commission due for the performance of the mediation service. The commission fee is the net amount that is withheld by the Group after paying the portion due to a third party for which the Group mediates.

1.10. Financial assets

1.10.1. Initial recognition and measurement

Financial assets are classified, at initial recognition, as:

- subsequently measured at amortised cost;
- subsequently measured at fair value through other comprehensive income (FVOCI); or
- subsequently measured at fair value through profit or loss (FVPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the "SPPI test" and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades), are recognised on the trade (transaction) date, i.e., the date that the Group commits to purchase or sell the asset.

The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component and for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies under IFRS 15 in section 1.9. Fee and commission income and expenses.

1.10.2. Subsequent measurement

For the purpose of subsequent measurement, financial assets are classified in four categories:

- financial assets at amortised cost (debt instruments);
- financial assets at fair value through other comprehensive income (FVOCI) with 'recycling' of cumulative gains and losses (debt instruments);
- financial assets designated at fair value through other comprehensive income (FVOCI) with no 'recycling' of cumulative gains and losses upon derecognition (equity instruments); and
- financial assets at fair value through profit or loss (FVPL).

(a) Financial assets at amortised cost (debt instruments)

This is the category most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost is the amount at which an instrument is measured at initial recognition adjusted by the principal repayments and the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include amounts due from banks, loans to customers and investment in finance leases, trade receivables, and loans to related parties.

(b) Financial assets at fair value through other comprehensive income (FVOCI) with "recycling" (debt instruments)

The Group measures debt instruments at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through other comprehensive income, interest income, foreign exchange gains and losses, and impairment losses or reversals are recognised in the profit or loss and computed in the same manner as for financial assets measured at amortised cost. The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

The Group's debt instruments at fair value through other comprehensive income include investments in debt instruments listed/traded on regulated markets.

(c) Financial assets at fair value through other comprehensive income (FVOCI) without "recycling" (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the income statement when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at fair value through other comprehensive income are not subject to impairment assessment.

(d) Financial assets at fair value through profit or loss (FVPL)

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivative financial instruments are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

This category includes also derivative instruments and listed equity investments which the Group has not irrevocably elected to classify at fair value through OCI. Dividends on such equity investments are also recognised as other income in the income statement when the right of payment has been established.

This category also includes loans granted to customers at fair value through profit or loss (see Note 14).

1.10.3. Derecognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised (i.e. removed from the Group's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

1.11. Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next twelve months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

For amounts due from banks and debt instruments at fair value through other comprehensive income, the Group applies impairment based on the counterparty's credit rating.

At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers whether there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group's debt instruments at fair value through other comprehensive income consit solely of quoted bonds. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses ratings both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Group removes its risk exposures from the balance sheet depending on the type of the receivable, the number of days in delay of payments and the collateral coverage of the exposure.

Credit exposures to corporate clients are removed from the Group's balance sheet by decision of the Impairment Committee based on a specific and substantiated proposal by the SME Collection and Asset Management Department.

Based on IFRS 9 requirements and historical data, credit exposures to individuals are removed from the Group's balance sheet at a loan level automatically after they become more than 1,080 days past due for the exposures extended in Bulgaria, 720 days for those extended in Romania, and 360 days for the exposures extended by 4Finance EOOD, as well as by foreign companies, part of the 4Finace Group.

Proceeds from sale of loans and collected written-off loans are reported as decrease in impairment costs.

In certain circumstances renegotiation or modification of contractual cash flows of a financial asset may lead to derecognition of the existing financial asset. Accordingly, the date of modification is considered as the date of initial recognition of the financial asset when the impairment requirements are applied to the modified financial asset.

If the contractual cash flows on a financial asset are renegotiated or otherwise modified, but the financial asset is not derecognised, it cannot be automatically considered that this financial asset has lower credit risk. The Group assesses whether there has been a significant increase in credit risk after initial recognition on the basis of reasonable and justified information available without making undue costs or effort. This includes both historical and forecast information and credit risk assessment for the expected lifetime of the financial asset, including information on the circumstances that have led to the modification. Evidence that the criteria for recognising expected credit losses over the lifetime of the instrument are no longer met may include up-to-date and timely data on the fulfillment of the payment obligation under the modified contractual terms.

1.12. Financial liabilities

1.12.1. Classification, initial recognition and measurement

Financial liabilities that are neither derivative instruments, nor financial liabilities originating from contracts for transfer of financial assets, nor liabilities under financial guarantees or such that have been designated upon initial recognition as at fair value through profit or loss, are classified and reported at amortised cost.

Initially, financial liabilities are recognised at fair value and in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The financial liabilities of the Group consist of loans, borrowings, derivative financial instruments and trade and other payables.

1.12.2. Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

(a) Financial liabilities at fair value through profit or loss (FVPL)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liabilities as at fair value through profit or loss.

Notes to the financial statements (tables in BGN'000)

(b) Financial liabilities at amortised cost (loans, borrowings and current trade payables)

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured by the Group at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The EIR amortisation is included as finance costs in thse income statement.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 23 and Note 24.

1.12.3. Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability.

1.13. Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and are carried at their net amount in the Group's statement of financial position, if and only if there is legal right to offset the recognised amounts, and when there is an intention to settle them at maturity on net basis and the realisation of the assets and the settlement of the liabilities can be done simultaneously.

1.14. Issued capital

The issued capital of the Group is the issued capital of the Bank and is stated at the nominal amount of shares. Inherent costs directly relating to the issue of new shares or options, or to the acquisition of businesses, are taken to equity in decrease of proceeds, net of taxes.

1.15. Property and equipment

Equipment and other tangible assets are carried at historical cost less any depreciation and impairment.

The historical cost includes expenses directly related to the acquisition of the tangible assets.

Any subsequent costs are included in the carrying amount of a tangible asset or are recognised as a separate asset only when it is probable that the latter will bring future economic benefits to the Group and its cost can be measured reliably. All costs for current repair and maintenance are recognised in the statement of comprehensive income as incurred.

Depreciation is charged under the straight-line method over the useful life of the asset. The residual amount of the asset and its useful life are reviewed and adjusted as appropriate at each balance sheet date.

The annual depreciation rates are as follows:

Buildings	4%
Equipment (computers and periphery)	25%
Leasehold asset improvements	15%
Other tangible assets	15%

Assets that are subject to depreciation are reviewed for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable.

The carrying amount of the asset is written down to its recoverable amount if the carrying amount is higher than the asset's estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less the costs to make the sale and the value in use.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from the disposals and the carrying amounts of the respective assets. These are included in profit or loss.

The depreciation rate adopted in respect of leasehold improvements is based on the lower of the useful life of the assets and the remaining term of the lease contract.

1.16. Intangible assets

Intangible assets comprise mainly software and are stated at historical cost less accumulated amortisation and impairment. Amortisation is charged under the straight-line method over the useful life of the asset. The residual amount of the asset and its useful life are reviewed and adjusted as appropriate at each financial statements date.

Notes to the financial statements (tables in BGN'000)

The annual amortisation rates are as follows:

Software	10-25%
Other assets	25%

1.17. Assets acquired from foreclosure on collaterals

The Group classifies assets repossessed against loans as assets acquired from foreclosure on collateral. Their revaluation is based on an independent valuer's assessment. Assets acquired against debt are sold as quickly as is appropriate and sales revenue is recognised in other income net of the carrying amount of the asset sold.

Repossessed assets are classified in a separate line in the statement of financial position. Initially, they are measured at acquisition cost. The cost of acquisition includes also other costs directly related to the acquisition of the asset. Subsequently, the assets acquired are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less costs necessary to make the sale. The estimate of net realisable value is based on the most objective evidence available at the time of the evaluation. A new estimate of the net realisable value is made for each subsequent reporting period. Where circumstances, which resulted in a reduction in the value of the asset below the acquisition cost, no longer exist or where there is clear evidence of increase in net realisable value due to a change in the economic situation, the amount of the decrease is adjusted.

1.18. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and cash in bank accounts held with central banks, cash in nostro accounts held with other banks, as well as deposits with banks with original maturity of less than three months. Cash and cash equivalents do not include encumbered assets

1.19. Income tax

Current income tax is calculated in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Tax Act and the Romanian tax legislation with respect to the income tax of the branch and Romanian subsidiaries. The nominal tax rate applicable in Bulgaria in 2022 is 10% (2021: 10%), and the tax rate applicable in Romania is 16% (2021: 16%). Current tax for the reporting period is based on the taxable profit for the year at the tax rates in effect as at the balance sheet date. Tax expenses, other than income tax, are included in other operating costs.

Deferred tax is provided using the balance method for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences and for carry-forward tax loss, to the extent it is probable that they will reverse and that sufficient taxable profit or taxable temporary differences against which such deductible differences can be utilised, will be available in the future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset by the Group, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

1.20. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the liability, and the liability can be measured reliably.

1.21. Leases

1.21.1. The Group as a lessee

(a) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date, an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Plant and machinery	4 years
Motor vehicles and other equipment	4 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the acquisition cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section 1.27. Impairment of non-financial assets.

(b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option expected to be exercised with reasonable certainty, and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of twelve months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

1.21.2. The Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease term and is included in revenue in the income statement due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Lease contracts are classified as finance leases when the Group has transferred to the lessee all material risks and rewards associated with the leased assets. Receivables on finance leases are carried in line Finance lease receivables in the statement of financial position. The Group applies its accounting policies for impairment of financial assets when finance lease contracts are impaired.

1.22. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payment to reimburse the holder for a loss the holder incurs because a specified debtor fails to make payments when they fall due in accordance with the terms of the debt instrument. Such financial guarantees are issued to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other bank facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date of issuance of the guarantee. Following initial recognition, the Bank's liabilities related to such guarantees are measured at the higher of: (a) the initial measurement less the amortisation calculated for the purpose of recognising in the statement of comprehensive income the commission income earned on a straight-line basis throughout the lifetime of the guarantee and (b) the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are based on the experience with similar transactions and history of past losses, supplemented by the judgement of management.

The expected credit losses relating to financial guarantees issued are recognised in the statement of comprehensive income in Credit loss expense on financial assets.

1.23. Employee benefits

According to the local legislation, the Group is obliged to make defined contributions to the state social security fund on behalf of its employees. All such payments and accrued liabilities are recognised as an expense in the period they refer to.

Short-term employee benefits include salaries, interim and annual bonuses, social security contributions and annual compensated absences for current employees expected to be settled wholly within twelve months after the end of the reporting period. They are recognised as an employee benefit expense in the profit or loss or included in the cost of an asset when service is rendered to the Group and are measured at the undiscounted amount of the expected cost of the benefit. Information on short-term employee benefits is disclosed in Note 8.

Retirement benefit is calculated in accordance with the local labour legislation applicable in each country in which the Group companies operate. Based on the calculations made, the total amount of retirement benefit provision of the Group is presented in Note 25.

1.24. Dividends

Dividends are recognised as a liability when a decision is made by the sole owner of the equity to distribute dividends.

1.25. Fiduciary assets in custody

The Bank provides services as an investment intermediary in accordance with the provisions of the Public Offering of Securities Act. Being an investment intermediary, the Bank is obliged to comply with certain requirements for safeguarding customers' interests in compliance with the Markets in Financial Instruments Act and Ordinance 58, issued by the Financial Supervision Commission.
The Bank keeps assets on behalf of its customers and in its capacity as investment intermediary. These assets are not presented in the statement of financial position as they do not represent Bank's assets.

1.26. Business combinations and goodwill

Business combinations are reported using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination the acquirer measures the non-controlling interest in the acquiree at fair value or at the proportionate share in the identifiable net assets of the acquiree. Costs related to the acquisition are taken to the profit or loss for the period.

When the Group acquires a business it assesses whether the financial assets and liabilities acquired are classified and presented appropriately in view of the contractual terms and conditions, the economic conditions, and the relevant circumstances at the acquisition date. This involves separation of any embedded derivatives from the host contracts of the acquiree.

If a business combination is realised in stages, the fair value at the acquisition of interests held in the acquiree earlier is remeasured at fair value at the date of the acquisition through the profit or loss for the period.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is classified as an asset or a liability, are recognised in accordance with IFRS 9 *Financial instruments.*

If the contingent consideration is classified as an equity instrument, it is not remeasured until it is ultimately settled within the equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Following initial recognition, goodwill is carried at cost less any accumulated impairment losses. For impairment testing, goodwill acquired in a business combination is allocated, as of the acquisition date, to each of the cash generating units of the Group that are expected to benefit from the combination, regardless of whether other assets and liabilities of the acquiree have been allocated to these units or not.

When goodwill forms part of a cash generating unit and some of the operations of this unit are disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in this manner is measured based on the relative values of the disposed operation and the portion of the cash generating unit retained.

If the initial accounting for the business combination is not completed by the end of the reporting period during which the combination occurs because the fair values that have to be determined for the acquiree's identifiable assets acquired and liabilities taken over, or the amount of the consideration transferred, or the non-controlling interest can be determined only provisionally, the Group reports the combination using these provisional amounts for the assets and liabilities. The Group recognizes adjustments to these assets and liabilities as a result of the completion of the initial accounting within twelve months from the acquisition date and retrospectively from that date.

In combinations involving entities under common control the Group applies the pooling-of-interests method to account for these transactions. The carrying amounts of assets and liabilities of the acquired company are presented as part of the consolidated carrying amounts of assets and liabilities of the Group at each reporting date after the acquisition. The income and expenses of the acquired company are included in the consolidated income and expenses from the beginning of the reporting period in which control is gained, and not from the moment it was gained. The difference between any consideration paid and the carrying amount of the acquired net assets is recognized directly in the consolidated net assets as retained earnings.

1.27. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, an impairment test is performed and the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets which cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognized in profit or loss in the statement of comprehensive income in line Impairment losses on other assets. An impairment loss on non-financial assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

2. Financial risk management

In performing its activities the Group is exposed to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk and price risk), liquidity risk, and operational risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise the potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor adherence to the risk limits by means of a reliable and up-to-date information system. The Group regularly reviews its risk management policies and systems to reflect in a timely manner changes in the markets, products and emerging best practices.

In March 2022 TBI Bank EAD elaborated a Methodology for conducting an internal capital adequacy analysis and a Methodology for conducting an internal liquidity adequacy analysis. In December 2022 the Bank updated its rules for financial asset classification and impairment in accordance with the new Guidelines on the application of definition of default as per art. 178 of Regulation (EU) 575/2013, the requirements of IFRS 9 *Financial Instruments* and the Emergency Preparedness and Business Continuity Plan of TBI Bank EAD which was updated in December 2022.

The risk control policy of the Group's management is aimed at ensuring compliance with the principles of hierarchy and centralization, and includes:

- risk management policy, risk measurement rules and methods, based on both statistical models and international best banking practices, as also on the historical experience of the Group;
- risk assessment by specialized units of the Group in accordance with the established rules, proposed for approval and resolution by the management board.

The supervisory board passes decisions on the measures to be taken by the Group with respect to its long-term risk management policy and strategy.

The risk management process includes the following stages:

- risk identification – definition of its nature and description;
- risk measurement and assessment – methods to measure the risks and to ensure reliable outgoing data for risk measurement.

Risk management units are responsible for risk mitigation by employing methods based on the definition of acceptable risk levels (to limit any potential and probable losses), outsourcing, monitoring and other risk mitigation best practices, and they:

- coordinate the work of the departments related to analysis, assessment, supervision, management and control over risk;
- develop and implement an internal rating system for the customers of the Group;
- develop and implement approaches to meet the requirements of EU Directives, Basel III and the respective internal rules.

At present, the Group assesses risk by applying the standardised risk assessment methods.

2.1. Credit risk

2.1.1. General information

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay any amounts due in full and/or when they fall due. At the same time, significant changes in the economy or in the situation in a particular industry segment that represents a concentration in the Group's portfolio could result in losses other than the losses for which ECL allowances are identified by the Group's management as at the financial statements date. Management manages carefully the Group's exposure to credit risk.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of acceptable risk in relation to its exposure to one borrower or a group of borrowers, as also by geographical regions and industry segments. Such risks are monitored regularly and are subject to annual or more frequent review.

The main exposures of the Group are towards governments, banks and customers who have received loans or have issued securities purchased by the Group. In measuring the credit risk on these exposures the Group considers the following components:

- international ratings awarded by recognised rating agencies;
- assessment of the financial position of the individual debtor;
- ability of the debtor to secure sufficient funds for regular repayment of its future payables to the Group;
- servicing of past liabilities of the debtor to the Group and/or to other institutions;
- type and amount of security for the balance sheet exposures and the contingent liabilities of the customer.

The Group manages the credit risk on amounts provided to customers, banks and governments through a comprehensive set of policies and procedures to ensure that all aspects of credit risk are adequately covered. Financial risk is assessed following detailed analysis of the financial statements of the borrower/guarantor, based on a system of creditworthiness indicators.

The market component of credit risk is assessed based on the economic characteristics/prospects of the relevant market and the competitive position of the prospective borrower.

2.1.2. Risk mitigation and risk limit control policies

The Group manages limits and controls the concentration of credit risk in respect of counterparties, groups and industries in each particular case of risk identification.

The Group has set credit approval levels in order to manage credit risk. Depending on the amount of the loan application, credits shall be referred to the appropriate level for approval. The Group assesses financial, market and business risks, and structures adequately the transactions. Credit risk is measured using a detailed analysis of the borrower's or guarantor's financial statements based on a system of indicators measuring their creditworthiness.

The exposure to each borrower, including banks and intermediaries, is further limited by sub-limits covering on-balance sheet exposures, contingent liabilities and irrevocable commitments, and day-to-day risk limits relating to trading positions, such as forward and swap contracts. Actual exposures to the relevant limits are monitored on an ongoing basis. The exposure to credit risk is managed through a constant analysis of the ability of the borrowers and potential borrowers to cover their liabilities and, where appropriate, by changing credit limits.

2.1.3. Exposures classification

Risk exposures are evaluated and classified based on the credit risk level, the period of delay of the amounts due, the analysis of the financial position of the debtor and the main sources for repayment of the debtor's liabilities. The assessment of the financial position includes qualitative and quantitative analyses taking into account all circumstances which may affect debt repayment according to the terms of the loan agreement. Risk exposures on loans extended to individuals are measured and classified completely based on the defaults on any amounts due.

The Group's risk exposures are classified in three groups by applying the criteria for the levels of credit risk in IFRS 9, namely Stage 1, Stage 2 and Stage 3.

Stage 1 exposures are serviced regularly and the information on the borrower's financial performance provides no grounds to assume that the borrower will not be able to pay off the liability in full. These exposures meet all of the following criteria:

- exposures in arrears – up to 30 days past due;
- exposures with no proof of financial difficulties of the borrower;
- exposures not defined as forborne.

Notes to the financial statements (tables in BGN'000)

Stage 2 exposures meet all of the following criteria:

- exposures in arrears – from 31 to 90 days;
- exposures for which there is no proof of financial difficulties of the borrower;
- exposures defined as forborne in accordance with Commission Implementing Regulation (EU) 2015/1278 of 9 July 2015 amending Implementing Regulation (EU) 680/2014, laying down implementing technical standards with regard to supervisory reporting of institutions as regards instructions, templates and definitions. A forborne exposure is an exposure for which either of the following conditions is met:
  - the term extension has not led to classifying the exposure as non-performing;
  - the exposure was not considered to be a non-performing exposure at the date the forbearance measures were extended.

Stage 3 comprises exposures where there are significant weaknesses in their service or there is a serious deterioration in the financial situation of the borrower, which may cast doubts as to the full repayment of the liability. The following criteria apply cumulatively for these exposures:

- exposures that meet the recognition criteria for Stage 3, corresponding to the existing initial IFRS 9 impairment mechanisms that are considered to result in loss for the Group;
- all non-performing exposures (NPL) as per the definition of the Group – non-performing for more than 90 days after their maturity date;
- a material liability of the debtor to the Group has been past due for more than 90 days. A liability is considered material when either of the following conditions is met:
  - exposures to individuals – a minimum amount of BGN 5 or their equivalent in other currency;
  - corporate exposures – a minimum amount of BGN 100 or their equivalent in other currency;
  - the baseline scenario shows that it is unlikely that the debtor will fully repay its loan liabilities to the Group without recourse to actions such as collateral foreclosure.

On-balance sheet exposures that have occurred as a result of the implementation of off-balance sheet engagements (guarantees) are classified as Stage 2 or Stage 3 exposures.

The loans to customers are summarised as follows:

At 31 December 2022	**Neither past due, nor impaired individually**	**Past due but not impaired individually**	**Impaired individually**	**Total**
Stage 1	1,191,054	136,874	6,075	1,334,003
Stage 2	17,347	46,480	109	63,936
Stage 3	15,078	118,398	5,338	138,814
Gross amount	1,223,479	301,752	11,522	1,536,753
Less: allowance for ECL	(32,279)	(103,634)	(1,928)	(137,841)
Carrying amount	**1,191,200**	**198,118**	**9,594**	**1,398,912**

At 31 December 2021	**Neither past due, nor impaired individually**	**Past due but not impaired individually**	**Impaired individually**	**Total**
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 amount	818,496	219,329	20,739	1,058,564
Less: allowance for ECL	(22,025)	(76,788)	(2,722)	(101,535)
Carrying amount	**796,471**	**142,541**	**18,017**	**957,029**

Notes to the financial statements (tables in BGN'000)

The net investment in finance leases is summarised as follows:

At 31 December 2022	Neither past due, nor impaired individually	Past due but not impaired individually	Impaired individually	Total
Stage 1	260	4	264	528
Stage 2	5	4	42	51
Stage 3	3,089	84	849	4,022
Gross amount	3,354	92	1,155	4,601
Less: allowance for ECL	–	(6)	(403)	(409)
Carrying amount	**3,354**	**86**	**752**	**4,192**

At 31 December 2021	Neither past due, nor impaired individually	Past due but not impaired individually	Impaired individually	Total
Stage 1	839	52	–	891
Stage 2	88	2	2	92
Stage 3	2	3,788	832	4,622
Gross amount	929	3,842	834	5,605
Less: allowance for ECL	(4)	(24)	(437)	(465)
Carrying amount	**925**	**3,818**	**397**	**5,140**

The total allowance for ECL on credits and advances is BGN 138,251 thousand (2021: BGN 102,000 thousand). Allowances accrued for individually assessed financial assets amount to BGN 1,927 thousand (2021: BGN 3,159 thousand) and those accrued on collective basis amount to BGN 135,914 thousand (2021: BGN 98,841 thousand). Further details of the allowance for ECL on credits and advances is given in Note 16.

In 2022, loans to customers extended by the Group, before impairment, grew by 44.78% compared to the previous year. In order to effectively manage credit risk, the Group continues to actively engage in renegotiation, restructuring and closure of existing risk exposures.

Loans to customers that are neither past due, nor impaired individually

Loans to customers and finance lease receivables that are neither past due nor impaired individually are presented in the table below grouped according to type:

At 31 December 2022	Corporate customers	Individuals	Finance leases	Total
Stage 1	206,277	984,777	260	1,191,314
Stage 2	11,820	5,527	5	17,352
Stage 3	11,002	4,076	3,089	18,167
Gross amount	229,099	994,380	3,354	1,226,833
Less: allowance for ECL	(1,197)	(31,082)	–	(32,279)
Carrying amount	**227,902**	**963,298**	**3,354**	**1,194,554**
Including:				
Standard risk loans	*229,066*	*989,884*	*3,354*	*1,222,304*
Higher risk loans	*33*	*4,496*	–	*4,529*

Higher risk loans are loans which have been overdue in the last six months and are neither past due nor impaired as of the date of the financial statements.

Notes to the financial statements (tables in BGN'000)

At 31 December 2021	Corporate customers	Individuals	Finance leases	Total
Stage 1	129,339	677,473	839	807,651
Stage 2	5,689	1,529	88	7,306
Stage 3	3,088	1,378	2	4,468
Gross amount	138,116	680,380	929	819,425
Less: allowance for ECL	(655)	(21,370)	(4)	(22,029)
Carrying amount	**137,461**	**659,010**	**925**	**797,396**
Including:				
Standard risk loans	*135,028*	*678,409*	*927*	*814,364*
Higher risk loans	*3,088*	*1,971*	*2*	*5,061*

The consumer loan portfolio, which represents more than 81.05% (2021: 83.03%) of all receivables that are neither past due nor individually impaired, is strongly diversified both in terms of number and of amount. The latter comprises many small exposures without geographic or sector concentration, and is characterised with its short-term nature and high quality based on past experience. Loans to corporate customers include primarily exposures to small and medium-sized enterprises of acceptable credit quality and within the Group's risk appetite. These include loans secured mainly by mortgages.

Loans granted to customers that are overdue, but not impaired individually

Loans to customers that are neither past due nor individually impaired are divided on the basis of historical analysis of non-performance of the customers' obligations. The group bearing higher risk includes exposures past due for more than 90 days over the last six months as at the date of the financial statements. All other exposures are included in the group of standard quality of credit risk.

At 31 December 2022	Corporate customers	Individuals	Finance leases	Total
Stage 1	10,222	126,652	4	136,878
Past due up to 30 days	10,222	126,652	4	136,878
Stage 2	1,725	44,759	–	46,484
Past due up to 30 days	414	3,245	–	3,659
Past due from 31 to 60 days	850	26,480	–	27,330
Past due from 61 to 90 days	461	15,034	–	15,495
Stage 3	6,848	111,546	88	118,482
Past due up to 90 days	291	4,129	–	4,420
Past due more than 90 days	6,557	107,417	88	114,062
Gross amount	18,795	282,957	92	301,844
Less: allowance for ECL	(5,911)	(97,723)	(6)	(103,640)
Carrying amount	**12,884**	**185,234**	**86**	**198,204**

Notes to the financial statements (tables in BGN'000)

At 31 December 2021	Corporate customers	Individuals	Finance leases	Total
Stage 1	**2,770**	**80,892**	**52**	**83,714**
Past due up to 30 days	2,770	80,892	52	83,714
Stage 2	**2,821**	**31,113**	**2**	**33,936**
Past due up to 30 days	1,291	2,306	–	3,597
Past due from 31 to 60 days	1,148	18,543	–	19,691
Past due from 61 to 90 days	382	10,264	2	10,648
Stage 3	**15,461**	**86,272**	**3,788**	**105,521**
Past due up to 90 days	3,449	1,092	250	4,791
Past due more than 90 days	12,012	85,180	3,538	100,730
Gross amount	21,052	198,277	3,842	223,171
Less: allowance for ECL	(3,402)	(73,386)	(24)	(76,812)
Carrying amount	**17,650**	**124,891**	**3,818**	**146,359**

According to the internal rules and policies, the Group assesses individually the corporate loans in its portfolio and calculates a provision for impairment in the presence of expected and/or objective evidence of impairment. Consumer loans and retail loans are considered to have portfolio impairment indicators, with credit quality being determined on the basis of an analysis of the days past due and the respective scope of the delay.

Loans to customers impaired individually

At 31 December 2022	Corporate customers	Individuals	Finance leases	Total
Stage 1	6,077	–	262	6,339
Stage 2	109	–	42	151
Stage 3	5,336	–	851	6,187
Gross amount	11,522	–	1,155	12,677
Less: allowance for ECL	(1,928)	–	(403)	(2,331)
Carrying amount	**9,594**	–	**752**	**10,346**

At 31 December 2021	Corporate customers	Individuals	Finance leases	Total
Stage 1	13,100	–	–	13,100
Stage 2	801	–	2	803
Stage 3	6,838	–	832	7,670
Gross amount	20,739	–	834	21,573
Less: allowance for ECL	(2,722)	–	(437)	(3,159)
Carrying amount	**18,017**	–	**397**	**18,414**

For individually assessed accounts, loans are treated as impaired as soon as expected and/or objective evidence indicates that an impairment loss has been incurred.

Movement between stages

The following tables illustrate the movement in 2022 between the stages of loans extended to corporate customers, showing gross amounts and ECL:

Notes to the financial statements (tables in BGN'000)

	Stage 1	Stage 2	Stage 3	Total
Gross amount of credit exposures at 01.01.2022	**146,100**	**9,403**	**30,009**	**185,512**
Newly extended or purchased loans	189,234	–	–	189,234
Closed loans	(4)	–	(48)	(52)
Transfers to Stage 1	7,507	(3,898)	(3,609)	–
Transfers to Stage 2	(15,867)	16,237	(370)	–
Transfers to Stage 3	(4,881)	(2,781)	7,662	–
Amendment of loans with unchanged stage	(97,878)	(6,356)	3,654	(100,580)
Collection of receivables under Stage 3 loans	–	–	(9,209)	(9,209)
Loans written off	–	–	(874)	(874)
Foreign currency differences	(12)	–	(2)	(14)
Gross amount of credit exposures as at 31.12.2022	**224,199**	**12,605**	**27,213**	**264,017**

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL at 01.01.2022	**796**	**711**	**5,734**	**7,241**
Newly extended or purchased loans	1,973	–	–	1,973
Closed loans	–	–	(48)	(48)
Transfers to Stage 1	739	(212)	(527)	–
Transfers to Stage 2	(473)	488	(15)	–
Transfers to Stage 3	(113)	(1,056)	1,169	–
Impairment of loans with unchanged stage	(946)	189	3,431	(2,674)
Collection of receivables under Stage 3 loans	–	–	(1,423)	(1,423)
Loans written off	–	–	(877)	(877)
Foreign currency differences	(2)	(1)	(12)	(15)
Allowance for ECL as at 31.12.2022	**1 ,974**	**119**	**7,432**	**9,525**

The following tables illustrate the movement in 2021 between the stages of loans extended to corporate customers, showing gross amounts and ECL:

	Stage 1	Stage 2	Stage 3	Total
Gross amount of credit exposures at 01.01.2021	**102,244**	**19,442**	**29,400**	**151,086**
Newly extended or purchased loans	116,461	–	–	116,461
Closed loans	(38,494)	(4,016)	(1,494)	(44,004)
Transfers to Stage 1	2,954	(1,521)	(1,433)	–
Transfers to Stage 2	(6,428)	6,498	(70)	–
Transfers to Stage 3	(6,642)	(9,866)	16,508	–
Amendment of loans with unchanged stage	(20,925)	(2,388)	4,051	(19,262)
Collection of receivables under Stage 3 loans	–	–	(12,155)	(12,155)
Loans written off	–	–	(4,518)	(4,518)
Foreign currency differences	(1,561)	(255)	(280)	(2,096)
Gross amount of credit exposures as at 31.12.2021	**147,609**	**7,894**	**30,009**	**185,512**

Notes to the financial statements (tables in BGN'000)

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL at 01.01.2021	**917**	**1,250**	**7,903**	**10,070**
Newly extended or purchased loans	1,404	–	–	1,404
Closed loans	(253)	(188)	(707)	(1,148)
Transfers to Stage 1	339	(168)	(171)	–
Transfers to Stage 2	(327)	377	(50)	–
Transfers to Stage 3	(134)	(982)	1,116	–
Impairment of loans with unchanged stage	(615)	(90)	6,662	5,957
Collection of receivables under Stage 3 loans	–	–	(4,113)	(4,113)
Loans written off	–	–	(4,518)	(4,518)
Foreign currency differences	(13)	(10)	(388)	(411)
Allowance for ECL as at 31.12.2021	**1,318**	**189**	**5,734**	**7,241**

The following tables illustrate the movement in 2022 between the stages of loans extended to individuals, showing gross amounts and ECL:

	Stage 1	Stage 2	Stage 3	Total
Gross amount of credit exposures at 01.01.2022	**758,365**	**32,642**	**87,650**	**878,657**
Newly extended or purchased loans	879,206	–	–	879,206
Closed loans	(67,200)	(2,745)	(40,548)	(110,493)
Transfers to Stage 1	11,133	(6,592)	(4,541)	–
Transfers to Stage 2	(46,987)	47,274	(287)	–
Transfers to Stage 3	(78,185)	(11,018)	89,203	–
Amendment of loans with unchanged stage	(344,898)	(9,275)	49,058	(305,115)
Collection of receivables under Stage 3 loans	–	–	(8,920)	(8,920)
Loans written off	–	–	(55,991)	(55,991)
Foreign currency differences	(4)	–	(2)	(6)
Gross amount of credit exposures as at 31.12.2022	**1,111,430**	**50,286**	**115,622**	**1,277,338**

Phase 1 includes loans to individuals carried at fair value through the profit and loss, at the amount of BGN 5 thousand as of 31 December 2022.

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL at 01.01.2022	**27,087**	**10,733**	**56,939**	**94,759**
Newly extended or purchased loans	68,723	–	–	68,723
Closed loans	(2,009)	(1,122)	(27,065)	(30,196)
Transfers to Stage 1	4,820	(1,813)	(3,007)	–
Transfers to Stage 2	(10,982)	11,162	(180)	–
Transfers to Stage 3	(35,703)	(3,632)	39,335	–
Impairment of loans with unchanged stage	(15,431)	1,235	71,271	57,075
Collection of receivables under Stage 3 loans	–	–	(5,771)	(5,771)
Loans written off	–	–	(55,793)	(55,793)
Foreign currency differences	(63)	(8)	1	(70)
Allowance for ECL at 31.12.2022	**36,442**	**16,555**	**75,730**	**128,727**

The following tables illustrate the movement in 2021 between the stages of loans extended to individuals, showing gross amounts and ECL:

Notes to the financial statements (tables in BGN'000)

	Stage 1	Stage 2	Stage 3	Total
Gross amount of credit exposures at 01.01.2021	**512,575**	**36,506**	**103,777**	**652,858**
Newly extended or purchased loans	660,899	–	–	660,899
Closed loans	(127,145)	(6,388)	(49,342)	(182,875)
Transfers to Stage 1	14,895	(10,398)	(4,497)	–
Transfers to Stage 2	(31,596)	31,917	(321)	–
Transfers to Stage 3	(24,160)	(39,013)	63,173	–
Amendment of loans with unchanged stage	(222,640)	(3,464)	49,967	(176,137)
Collection of receivables under Stage 3 loans	–	–	(6,849)	(6,849)
Loans written off	–	–	(68,167)	(68,167)
Foreign currency differences	(950)	(31)	(91)	(1,072)
Gross amount of credit exposures as at 31.12.2021	**781,878**	**9,129**	**87,650**	**878,657**

Phase 1 includes loans to individuals carried at fair value through the profit and loss, at the amount of BGN 348 thousand as of 31 December 2021.

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL at 01.01.2021	**17,390**	**9,872**	**66,157**	**93,419**
Newly extended or purchased loans	42,622	–	–	42,622
Closed loans	(2,721)	(1,140)	(30,201)	(34,062)
Transfers to Stage 1	5,311	(2,379)	(2,932)	–
Transfers to Stage 2	(6,811)	7,024	(213)	–
Transfers to Stage 3	(15,973)	(4,968)	20,941	–
Impairment of loans with unchanged stage	(12,577)	2,354	79,439	69,216
Collection of receivables under Stage 3 loans	–	–	(5,918)	(5,918)
Loans written off	(45)	(18)	(69,578)	(69,641)
Foreign currency differences	(109)	(12)	(756)	(877)
Allowance for ECL at 31.12.2021	**27,087**	**10,733**	**56,939**	**94,759**

2.1.4. Segmentation and models for calculation of expected credit losses (ECL)

All credit risk exposures are assessed and ranked on the basis of the period of default of the amounts due (principal and interest) at the level of the customer, in several steps. To begin with, in order to calculate the expected credit losses, the Group's portfolio is divided into segments with similar product characteristics. A collective assessment model is applied to these groups, based on historical data of probability of default (PD), loss given default (LGD) and exposure at default (EAD). Individual risk exposures that do not fall within any of the above groups are assessed using individual models.

Collective impairment model

The Group calculates expected credit losses (ECL) for groups of financial assets with similar characteristics by applying the formula ECL=PD * LGD * EAD. The components of this formula are calculated differently depending on the credit risk stage of the exposures (see Exposures classification above).

For **Stage 1**, an estimate of the expected loss over the next twelve months is made on the basis of:

- twelve-month indicators for the probability of default value:
  - ✓ late payments by conducting an analysis of the migration from one period to another according to days past due by products and groups, by number of days past due from one period to another;
  - ✓ calculation of late payments through a migration matrix.

- calculation of loss given default based on:
  - ✓ cash flows from collection of receivables through a "vintage" analysis of the historical cash flows from collection of receivables;
  - ✓ collateral details based on an analysis of the receivables recovery;

✓ analysis of the historical collection levels.

The **Stage 2** calculations overlap with the ones for Stage 1 above, except that the expected credit losses do not cover only the next twelve months but the full remaining lifetime of the instrument, based on a the lifetime probability of default.

The exposures in **Stage 3** are also evaluated based on the expected loss throughout the entire lifetime of the instrument, as follows:

- assumed probability of default of 100%;
- assumed maximum exposure at default;
- calculation of loss given default similar to Stage 1 and Stage 2.

In practice the components of the expected credit losses formula are determined following the general procedures below:

- PD – based on monthly migration matrices by number of exposures, in two phases:
  - ✓ calculation of a migration matrix for a 12-month period;
  - ✓ calculation of migration matrices for a period of 2 to 5 years for the expected loss throughout the entire lifetime of the instrument (5 years is the maximum contractual term of the exposures impaired on a portfolio basis). To calculate a probability of default for N number of years, the relevant number of migration matrices is multiplied.
- LGD – based on the formula LGD = 1 – (% recovery * discount factor), where the discount factor is based on the average annual effective rate applicable to that product, and the % recovery is based on the expected cash flows from the product;
- EAD – a coefficient of the calculated exposure at default is applied historically to the exposure amount at the beginning of the relevant period.

Individual impairment model

In the individual assessment of expected credit losses, the Group takes into account a number of factors such as current and historical performance of the borrower, the borrower's behaviour in connection with other financial instruments in the Group, the loan amount, the timing of loan extension, and collateral analyses.

To calculate the expected credit losses the Group uses the discounted cash flows model, including cash flows from collateral. The cash flows are forecasted based on two scenarios – baseline and negative, with relative weight of 50% and 50%, respectively. The expected cash flows are then discounted using the original EIR of the instrument and the result is compared to the amount of the exposure.

Lease portfolio

With respect to the impairment of lease receivables IFRS 9 requires to consider only the cash flows used in the current measurment of the lease receivable, and to exclude future cash flows which have not yet been recognized in the statement of financial position.

For the purposes of calculating loss at default, the default criterion for lease contracts is the notice of cancellation of the lease contract sent to the customer in accordance with the terms and conditions laid down therein.

The recovery rate is calculated for a historical period of up to seven years, excluding the contracts cancelled in the last 3 months for which the period of marketing the lease asset to other customers has not been completed.

Exposures exceeding EUR 500,000 are impaired individually and are not included in the calculation of the loss given default.

For each annulled contract, the following amounts shall be deemed to be recovered:

- amounts recovered from the customer after default until the reporting month;

- for assets acquired, the amount is deemed to be recovered from the date of the subsequent lease contract and no profit shall be included in this amount.

All amounts recovered are discounted to the month of default using the original effective interest rate comprising a contractual interest rate and fees applicable to the specific product.

Off-balance sheet positions

Credit loss expense is calculated also with respect to off-balance sheet positions recognised in accordance with article 9.2.1 and article B2.5 of Regulation 2016/2067. In order to measure as accurately as possible the exposure on off-balance sheet positions, such as financial guarantees and credit commitments which represent a potential additional credit loss, an appropriate credit conversion factor is used. The credit conversion factor is determined in accordance with article 166 (10) and Appendix I to Regulation 575/2013.

2.1.5. Forborne exposures

Forborne exposures are debt contracts in respect of which forbearance measures have been applied. Forbearance measures consist of concessions towards a debtor that is experiencing or is about to experience difficulties in meeting its financial commitments.

The concessions provided by the Group enable the debtor experiencing financial difficulties to comply with its financial commitments, which the debtor would not be able to comply with otherwise.

The indicators for financial difficulties include:

- a counterparty has overdue exposures to the Group at the time of modification;
- a counterparty is not currently in default but will not be able to fulfill its obligations in the foreseeable future without any modification and will not be able to pay in full its obligation to the Group;
- a counterparty is not able to obtain funds from sources other than the existing banks at an effective interest rate equal to the current market interest rate for similar loans of a non-problematic contractor.

The Group has adopted the following as criteria for discontinuing the classification as forborne exposure:

- the forborne exposure is considered to be performing, including where it has been reclassified from the non-performing exposures category after an analysis of the financial condition of the debtor which showed that it no longer met the conditions to be considered as non-performing;
- a minimum two-year probation period has passed from the date the forborne exposure was considered to be performing;
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period;
- none of the exposures to the debtor is more than 30 days past due at the end of the probation period.

In case of non-performing exposures with forbearance measures, those exposures shall be considered to have ceased being non-performing where all the following conditions are met:

- exposures are not considered as impaired or defaulted;
- one year has passed since the forbearance measures were applied;
- there is not, following the forbearance measures, any past-due amount or concern regarding the full repayment of the exposure according to the post-forbearance conditions;
- the forborne exposures may be reclassified from non-performing exposures (Stage 3) to performing exposures (Stage 2) after an analysis of the financial condition of the borrower that has demonstrated that the criteria for classification of these exposures as non-performing are no longer met.

These specific conditions for exit from that stage apply in addition to the criteria applied by reporting institutions for impaired and defaulted exposures in accordance with the applicable accounting framework and art. 178 of Regulation 575/2013, respectively.

Notes to the financial statements (tables in BGN'000)

All forborne exposures that meet the conditions described below, should always be classified as non-performing:

- they have an inappropriate repayment plan (both initial and subsequent) which includes, among other factors, repeated failure to comply with the repayment schedule, changes in the repayment schedule or a repayment schedule relying on expectations that are not supported by macroeconomic forecasts or realistic assumptions about the debtor's ability or willingness to pay;
- inclusion of contractual terms which postpone the term of the regular repayment instalments of the transaction in such a way as to conceal the assessment of an appropriate classification by providing a grace repayment period of the principal of two years or more;
- inclusion of write-offs exceeding the accumulated credit risk losses for non-performing exposures of a similar risk profile;
- additional forbearance measures are applied to a serviced forborne exposure within a probationary period, which has been reclassified outside the category of non-performing or defaulted for more than 30 days after maturity;
- the Group has filed a claim for declaring the debtor in bankruptcy, the debtor has been declared bankrupt or is in liquidation proceedings and there is a risk of unsatisfied creditors without probability of reorganisation.

The following tables present summarized information about the forborne exposures of the Group:

At 31 December 2022	Gross amount	Instruments with changed terms Stage 2	Instruments with changed terms Stage 3	Total loans to customers with forbearance measures	Ratio to total gross loan portfolio in the segment
Loans to customers					
Corporate customers	259,415	1,143	13,933	15,076	5.81%
Individuals	1,277,338	2,675	273	2,948	0.23%
Total amount	**1,536,753**	**3,818**	**14,206**	**18,024**	**1.17%**

At 31 December 2022	Stage 2	Stage 3	Total
Allowance for ECL on forborne loans to customers			
Corporate customers	112	2,466	2,578
Individuals	777	114	891
Total amount	**889**	**2,580**	**3,469**

At 31 December 2021	Gross amount	Instruments with changed terms Stage 2	Instruments with changed terms Stage 3	Total loans to customers with forbearance measures	Ratio to total gross loan portfolio in the segment
Loans to customers					
Corporate customers	179,907	2,795	16,453	19,248	10.70%
Individuals	878,657	20	15	35	0.00%
Total amount	**1,058,564**	**2,815**	**16,468**	**19,283**	**1.82%**

At 31 December 2021	Stage 2	Stage 3	Total
Allowance for ECL on forborne loans to customers			
Corporate customers	170	2,215	2,385
Individuals	8	10	18
Total amount	**178**	**2,225**	**2,403**

The Group has performed credit risk stress tests of the potential aggregate credit portfolio loss as of 31 December 2022 due to increased share of non-performing loans (unfavourable macroeconomic scenario), as well as of the aggregate credit portfolio loss of the Group for 36 months as of 31 December 2025 (dynamic portfolio) due to increased share of non-performing loans (unfavourable macroeconomic scenario). The framework used for the test is in line with EBO guidelines. The first stress test assumes a static portfolio, equal to the unguaranteed consolidated portfolio as of 31 December 2022 and migration of working portfolio to non-working portfolio. The assumptions are based on a three-year observation period with 36 consecutive monthly migration matrices for the rate of default. The matrices are grouped by product and location. The data is delivered by the risk management unit of the retail segment. The rate of default is going down both in Bulgaria and Romania during the last three years, including during the COVID-19 pandemic and the military conflict in Ukraine. In line with the assumptions for worsening of macroeconomic variables, the expectation for default are going up, despite the fact that the IFRS 9 model of the Group demonstrates a negative correlation between the applied macroeconomic variables and the performance of the portfolio. The expected additional loss on top of the current result is BGN 3,006 thousand.

The assumptions for the second stress test include increase of the (dynamic) portfolio, equal to the budgeted unguaranteed consolidated portfolio by 31 December 2025 and migration of working portfolio to non-working portfolio on the basis of 36 consecutive monthly migration matrices for probability of default, adjusted to reflect potential unfavourable macroeconomic scenarios. The portfolios are grouped by product, stage and market. An increased percentage of credit loss provision is calculated for every product and market, on the basis of assumptions for increased PD, EAD and LGD ratios, as presented by the credit risk management units in the retail segment. The total loss is the maximus for the whole three-year forecast horizon for the expected excess of the accumulated additional impairment losses over the accumulated profits during the financial year, and amounts to BGN 8,123 thousand.

Both stress tests lead to additional impairment losses, which the Group is able to cover with the current levels of capital.

2.1.6. Macroeconomic impact analysis

In the context of IFRS 9 application, the Group has developed statistical models for the probability of default, which show that the correlation between the Group portfolio quality and macroeconomic indicators is high only for the annual change in gross domestic product, although indicators such as unemployment, inflation and annual change in property prices have been considered, too. The analysis of the selected macroeconomic indicators reveals multicollinearity, which indicates strong connections between the variables, which can distort the interpretation of the regression models. In the beginning of 2023, the Group validated the developed regression models and the result showed a negative relationship between portfolio quality and the macroeconomic indicators. In the light of this, the management of the Bank does not expect that any negative environment changes will have a significant effect on the level of impairment of overdue exposures.

PD Macroeconomic Model for the Retail Portfolio

The scope of the analysis is to provide a framework that would allow inclusion of the impact of changes in the macroeconomic variables in the default rates of the retail portfolios.

The analysis does not aim to provide forecasts on the future macroeconomic condition, nor is exhaustive on the possible scenarios. Broadly, scenarios can be classified in two main categories: (a) those that are based on macroeconomic forecasts for the economy of interest and (b) those that refer to exogenous shocks to the economy (such as political and international events). The current analysis examines only scenarios of the first category, for which there is availability of:

- Sources of data and forecasts for macroeconomic indicators, published in a consistent manner by economists and relevant organizations;
- Portfolio data series that can be used to analyze the relationship between the portfolio default rates and macroeconomic variables.

In this regard, the IFRS 9 standard perceives that the scenarios cannot be realistically exhaustive, and the historical data should be treated as an important "anchor", while judgement is a key input for the calculation of expected credit loss.

The macroeconomic model was developed in Apr'2019, and the preferred input variable is GDP YOY.

The process for the adjustment of PD for the macroeconomic effect is summarized in the steps below:

Notes to the financial statements (tables in BGN'000)

Calculate macroeconomic effect (ME) using the YOY GDP change in the outcome period and incorporate the coefficient of the estimated model:

〖ME〗 _t=Macro coefficient*GDP YOY%

Incorporate the macroeconomic effect (ME) using the estimated model and adjust PD according to the following equation:

〖PD〗 _(MA,t)= 〖PD〗 _(E,t) × (1+ 〖ME〗 _t)

Where PDMA, t is the macro-adjusted PD estimate and PDE, t the PD estimate prior to any macroeconomic adjustment.

The model was recently validated, in February 2023, and the results show that the current model is using the best predictors (based on discriminatory power and accuracy metrics). Discrimination increased compared to development, the model performs satisfactorily, though correlation remains weak, as the portfolio is less sensitive to macroeconomic cycle events due to it's short term tenor (1-5 years). Thus, due to the specificity of the larger part of the portfolio of the bank leads to its low sensitivity to macro indicators changes as well as to negative impact to ECL.

Challenger models based on unemployment rate, HICP and HPI were investigated however GDP YOY remains the variable providing the strongest correlation with PD developments.

Annual forecasts from reputable sources (such as: IMF and European Commission) are used as inputs, under Adverse 50% (adverse forecast) and base 50% (base forecast).

The effect of macroeconomic adjustment implementation on the Dec'2022 stock of provisions is shown in the below table:

Country	**Macro variable**	**Coefficient**	**GDP YOY 2023 (%)**	**Macro effect %**	**Macro effect**
Bulgaria	GDP YOY %	(1.00854)	1,80%	(1.80%)	(262)
Romania	GDP YOY %	(1.14382)	2,20%	(2.50%)	(866)
Total					**(1,128)**

Growth of GDP YOY slowed down for both countries (compared to 2022), but remains positive, however in view of recent developments of the macroeconomic environment it is considered optimistic. A change in the weighting of the scenarios will not result in material positive impact (i.e. accrual of significant amount of ECL).

2.1.7. Maximum exposure to credit risk before collaterals

The table below presents the worst-case scenario of exposure to credit risk of the Group as at 31 December 2022 and 31 December 2021 without taking into account any collateral. Exposures for balance sheet assets are based on the net book values reported at the balance sheet date.

Notes to the financial statements (tables in BGN'000)

At 31 December	2022	2021
Cash balances with central banks	359,379	208,230
Due from banks	69,806	33,066
Derivative financial instruments	9,570	5,566
Loans to corporate customers	250,380	173,128
Loans to individuals	1,148,532	783,901
Finance lease receivables	4,192	5,140
Financial assets at FVOCI	133,670	108,070
Other receivables	48,637	18,766
Exposures related to contingent liabilities and irrevocable commitments:		
Guarantees	302	471
Undrawn loans commitments	133,695	103,658
Total maximum exposure to credit risk	**2,158,163**	**1,439,996**

2.1.8. Collateral

A requirement of the Group to borrowers is to provide liquid collateral before the approved credits are granted, for all loans other than consumer loans to individuals. The main types of collateral used are:

- cash in Bulgarian leva and foreign currency;
- real estate mortgages;
- pledges on business assets such as receivables, inventories, plant and equipment;
- pledges on financial instruments; and
- guarantees issued in favour of the Group.

Given the specifics of the Group's business and the growing portfolio of small consumer loans, the share of unsecured loans in the banking portfolio is growing. This type of loans is mostly short-term (average maturity of the portfolio of about 37 months) and with very low limits (average ticket size around BGN 2.49 thousand) and therefore, the Bank does not require collateralisation of its receivables.

Collateral, unless repossessed, is not recorded on the Group's statement of financial position. Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on a regular basis depending on its type. To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Non-financial collateral and financial assets which do not have readily determinable market values are valued using models.

The table below shows the total gross amount of loans to customers by type of collateral:

At 31 December	2022 Gross amount	2022 Collateral	2021 Gross amount	2021 Collateral
Mortgage loans	181,341	164,457	125,567	123,770
Loans with cash collateral	187	180	40	34
Loans with other collateral	22,542	22,397	6,169	5,689
Unsecured loans	1,332,683	–	926,788	–
Total	**1,536,753**	**187,034**	**1,058,564**	**129,493**

The next table shows the level of coverage of credit risk by collateral as a percentage of the carrying amount of guaranteed loans, by types of collateral as of 31 December 2022 and 31 December 2021. The amount of collateral is considered up to the amount of exposures it relates to, thus eliminating the effect of collateral exceeding the exposure.

Notes to the financial statements (tables in BGN'000)

	2022	2021
Loans collateralized by mortgages	91%	99%
Loans with cash collateral	96%	85%
Loans with other collateral	99%	92%

2.1.9. Geographic concentration of credit risk

Geographic sectors for financial assets with credit risk exposure:

	2022	2021
Romania	1,081,675	649,514
Bulgaria	744,562	505,444
Lithuania	97,854	124,899
USA	27,087	–
Austria	25,749	15,715
Greece	14,516	389
Luxemburg	10,600	15,264
Croatia	7,923	9,013
Turkey	6,307	6,212
Serbia	3,467	4,272
Montenegro	2,311	2,714
The Netherlands	467	1,143
Poland	5	493
Other countries	1,643	795
Total financial assets	**2,024,166**	**1,335,867**

Geographic sectors for contingent liabilities and irrevocable commitments:

	2022	2021
Romania	5,651	95,065
Bulgaria	128,338	9,062
Other countries	8	2
Total financial assets and contingent liabilities and irrevocable commitments	**2,158,163**	**1,439,996**

2.1.10. Contingent liabilities and irrevocable commitments

Guarantees and letters of credit which represent irrevocable commitments by the Group to make the respective payments if a customer fails to discharge its liability to a third party give rise to the same type of risk as loans. The Group has no guarantees claimed within the five previous years and therefore, the risk of claiming guarantees was not considered significant as at 31 December 2022.

Documentary and commercial letters of credit which represent written commitments of the Group on behalf of a customer that has authorised a third party to issue orders to the Group up to an agreed amount in accordance with specific conditions, are secured with cash deposits or other pledges in favour of the Group and therefore, the Group reports minimum risk levels.

Commitments to grant loans represent the unutilised portion of the allowed loan amount, guarantees or letters of credit. The Group controls the maturity of credit commitments since in most cases long-term commitments bear higher credit risk compared to short-term ones.

2.1.11. Analysis of financial assets at FVOCI, amounts due from banks and other receivables

The table below presents an analysis of financial assets at fair value through OCI and amounts due from banks at 31 December 2022 and 31 December 2021 based on criteria set by a rating agency as a result of credit assessments of a recognised external institution. Ratings awarded by Standard & Poor's or their equivalents are shown in the table below:

Notes to the financial statements (tables in BGN'000)

31 December 2022			31 December 2021		
Rating	**Financial assets at fair value through OCI**	**Dur from banks**	**Rating**	**Financial assets at fair value through OCI**	**Dur from banks**
	Moody's			**Moody's**	
A	–	23,139	A	–	13,788
Aaa	27,087	–	Aaa		
Baa	35,880	945	Baa	71,569	4,364
Ba	11,359	12,917	Ba	13,257	–
B	–	–	B	12,148	34
Fitch			**Fitch**		
BBB	38,773	366	BBB	–	2,999
BB	467	2,103	BB	1,143	814
B	6,769	38	B	6,786	642
BCRA			**BCRA**		
BBB	–	10,652	BBB	–	10,425
B	–	19,646	B	–	–
S&P			**S&P**		
A	332	–	A	361	–
BB	–	–	BB	–	–
B	12,911	–	B	2,714	–
Not rated	92	–	Not rated	92	–
Общо	**133,670**	**69,806**	**Общо**	**108,070**	**33,066**

Amounts due from banks and financial assets at fair value through other comprehensive income were classified in Stage 1 at 31 December 2022. Total credit loss allowances at 31 December 2022 are as follows:

- due from banks – BGN 47 thousand reported in decrease of total debt (2021: 8 thousand);
- financial assets at fair value through other comprehensive income – BGN 341 thousand (2021: 383 thousand) reported in other comprehensive income.

As of 31 December 2022, the rating of cash balances in accounts with central banks in Bulgaria was BBB (2021: BBB).

Amounts due from banks and other unrated financial institutions are classified internally based on an analysis of qualitative and quantitative factors.

At 31 December 2022 and 31 December 2021, other receivables were neither past due nor impaired. Other receivables are settled within 30 days after the date of occurrence and therefore, they are considered not past due. Other receivables were fully paid at the date of issue of the financial statements.

2.2. Market risk

The Group is exposed to market risk. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Market risk arises from open interest, currency and equity positions, which are exposed to the general and specific movements in market rates and prices, such as interest rates, credit spreads, foreign exchange rates and security prices.

Interest rate risk is the risk of a potential loss as a result of adverse changes in interest rates. This includes risk of changes in the yield curve, basis risk, spread risk, etc.

Notes to the financial statements (tables in BGN'000)

Foreign currency risk is the risk of a potential loss as a result of adverse changes in foreign currency exchange rates against the main currency. It includes overall risk (or global currency risk – impacts the complete operations of the Group – income, expenses, cash flows dynamics, regardless of which market transactions are oriented to), volatility risk and convertibility risk.
The risk related to potential losses as a result of unfavourable changes in the market levels of the prices of equity instruments and indices based on such prices, is also classified by the Group as market risk.

The Group's market risk policy is developed by the risk management units of the entities and is approved by the management board. The market risk policy is reviewed periodically and the changes are submitted to the management board. The market risk policy is applied in respect of control of this risk, arising on all assets, liabilities, contingencies and commitments of the Group, and accordingly covers financial and non-financial transactions that are subject to market risk.

The objectives of market risk control and supervision are:

- to protect the Group against unforeseen market losses;
- to contribute to more stable and predictable earnings; and
- to provide transparent, objective and consistent market risk information which is to serve as basis for sound decision making.

2.2.1. Market risk assessment techniques

The risk factors which generate market risk and should be included in the market risk assessment system include, but are not limited to:

- foreign exchange rates;
- interest rates;
- fair value of securities – the Group assesses this risk as immaterial.

The Group's exposure to derivative contracts is monitored as part of the overall market risk management.

Upon origination, derivative financial instruments frequently include only a mutual promise for an exchange against the payment of minimum or no initial amount. Nevertheless, these instruments often lead to high indebtedness levels and are extremely volatile. A relatively small change in the value of assets, interest rate levels or other indices underlying derivative contracts may have significant impact on the Group's profit and loss.

Swaps are contractual arrangements between two parties to exchange payments over fixed periods of time and based on a nominal amount set in relation to a contractual index such as interest rate, foreign exchange rate or capital index.
The Group uses economic hedges for changes in currency exchange rates.

The nominal amounts in the table below show the volume of outstanding transactions related to derivative contracts as of 31 December 2022 and 31 December 2021.

31 December 2022	Assets	Liabilities	Nominal amount
Derivatives aimed to hedge changes in interest rates/currency risk (swaps)	9,570	11,322	306,267

31 December 2021	Assets	Liabilities	Nominal amount
Derivatives aimed to hedge changes in interest rates/currency risk (swaps)	5,556	6,050	630,466

As of 31 December 2022, the Group had active derivative contracts concluded with the following counterparties: DSK Bank (Bulgaria), Raiffeisenbank (Bulgaria) and 4Finance SA (Luxembourg). The effect of the concluded derivative contracts in the net profit for the reporting period is a loss of BGN 1,267 thousand (2021: BGN 1,806 thousand) – see Note 7.

Notes to the financial statements (tables in BGN'000)

2.2.2. Foreign currency risk

Fluctuations in foreign exchange rates have impact on the financial position and cash flows of the Group and expose it to foreign currency risk. The management board sets limits to control the open foreign currency positions risk, which are monitored daily. As a rule, the Group does not maintain material open positions in currencies other than the Bulgarian lev (BGN), Euro (EUR) and Romanian lei (RON). The Group does not measure sensitivity to foreign currency risk for BGN and EUR, since as at 31 December 2022, the Bulgarian lev is pegged to the Euro. The open foreign currency position in RON, which amounted to BGN 338,836 thousand (2021: BGN 408,381 thousand), is hedged by means of currency forwards and swaps with a nominal amount of BGN 249,125 thousand (2021: FX forward of BGN 288,509 thousand).

The sensitivity to changes in exchange rates has been calculated directly on the basis of the total net open foreign currency position of the Bank in all foreign currencies (other than EUR) as a 10% fluctuation of the value of the local currency compared to all foreign currencies (other than EUR). The exchange rate BGN/EUR is pegged at a ratio 1.95583 as part of the Currency Board parameters.

As at 31 December 2022	Direct effect on profit/loss
- 10% change of local currency	(22,368)
+ 10% change of local currency	22,368

As at 31 December 2021	Direct effect on profit/loss
- 10% change of local currency	(25,648)
+ 10% change of local currency	25,648

The Group considers that there is no significant sensitivity and material effect on capital since the Bank's exposure is managed by derivative financial instruments.

2.2.3. Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will vary due to changes in market interest rates, and the risk that the fair value of a financial instrument will vary due to changes in market interest rates.

The Group takes on risks related to the effect of changes in market interest rates both in respect of the value of its financial assets, and in respect of cash flows. As a result of such changes interest rate margins may increase but they may also decrease and cause losses in case of unforeseen shocks. The management sets limits to maintain an acceptable level of interest rate imbalance and these limits are monitored regularly.

The sensitivity analysis below illustrates the potential impact on the statement of comprehensive income of floating interest rate items. The table below presents possible acceptable deviations selected based on the market and economic environment during the reporting period.

At 31 December 2022	Effect of changes in interest rates on profit/loss
+100 bp change	6,747
-100 bp change	(6,747)

At 31 December 2021	Effect of changes in interest rates on profit/loss
+100 bp change	3,483
-100 bp change	(3,483)

The Group considers that there is no significant effect of interest risk on capital, since the change in interest rates does not have a significant impact on the revaluation of securities carried at fair value through other comprehensive income.

2.2.4. Market risk for equity instruments

Market risk for equity instruments is the risk that the fair value of equity instruments will decrease as a result of changes in the levels of market indices and individual stock prices. For the Group, this risk arises in connection with equity instruments, which are reported at fair value in other comprehensive income. A decrease of 10% in the fair value of these instruments as of 31 December 2022 would lead to an insignificant decrease of the Group's equity value (2021: zero). A similar increase in fair value would lead to an insignificant similar increase in equity.

2.3. Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the presumption that the asset sale transaction or transfer of liability takes place either:

- in the principal market for that asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market should be accessible to the Group.

The fair value of an asset or liability is measured making assumptions that market participants would make to determine the price of the asset or liability, assuming that they would act in their best economic interest.

A fair value measurement of a non-financial asset (e.g. loan collateral) takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

External valuation experts are usually engaged for the measurement of the fair values of the material assets and liabilities. The need to engage external experts is assessed by the Group's management every year. Selection criteria for these experts include professional experience, qualities and reputation. Management decides, after discussions with the valuation experts, which valuation techniques and inputs to use for each case.

At each reporting date, management analyses the movements in the values of assets and liabilities which are subject to revaluation as per the Group's accounting policies. This involves verification of the major inputs applied in the latest valuation and agreeing the information in the valuation computation to contracts and other relevant documents. Management, in conjunction with the valuation experts, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Since during 2022 and 2021 the Group has generated new assets with characteristics similar to those of the assets generated during the previous reporting periods, management believes that there are no significant changes in the market conditions in which assets have been originated, and the parameters of their origination reflect an acceptable yield level for the respective type of financial instrument and risk appetite level.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liabilities and the level of the fair value hierarchy as explained below.

Notes to the financial statements (tables in BGN'000)

	Carrying amount 2022	2021	Fair value 2022	2021
Financial assets				
Cash and balances with central banks	359,379	208,230	359,379	208,230
Due from banks	69,806	33,066	69,806	33,066
Derivative financial instruments	9,570	5,566	9,570	5,566
Loans to corporate customers	250,380	173,128	249,888	167,730
Loans to individuals	1,148,532	783,901	1,148,155	783,899
Finance lease receivables	4,192	5,140	4,159	4,908
Securities at FVPL	–	–	–	–
Financial assets at FVOCI	133,670	108,070	133,670	108,070
Other receivables	48,637	18,766	48,637	18,766
Financial liabilities				
Due to banks	–	13,042	–	13,042
Derivative financial instruments	11,322	6,050	11,322	6,050
Due to customers	1,557,523	955,714	1,555,490	955,391
Other liabilities	77,682	47,097	77,682	47,097
Lease liabilities	11,137	9,422	11,137	9,422
Subordinated debt	60,561	19,829	52,876	19,190

2.3.1. Financial assets and liabilities carried at fair value

Financial assets and liabilities are carried at fair value by using quoted market prices in an active market at the date of the financial statements. If quoted market prices are unavailable, the fair value used are calculated as historical values less impairment losses, if applicable.

2.3.2. Financial assets and liabilities not carried at fair value

Due from banks

Amounts due from banks include inter-banking deposits and current accounts. The fair value of floating-rate and overnight deposits approximates their carrying amount. The estimated fair value of fixed rate deposits is based on the discounted cash flows using average market interest rates for liabilities with similar credit risk and remaining maturity but due to their short-term nature, management believes that their fair value approximates their carrying amounts as at 31 December 2022 and 31 December 2021.

Loans to customers

Loans to customers are carried at amortised cost less any expected credit loss allowance. The fair value of fixed interest rate loans to customers is the present value of the discounted future cash inflows by applying interest rate data for products similar to those delivered by the Group. In 2022 and 2021, the Group extended consumer loans bearing fixed interest rates.

Deposits from banks

The fair value of deposits from banks approximates their carrying amount due to their short-term nature. The fair value of fixed-rate deposits from customers is the discounted amount of the estimated future cash outflows by applying interest rate statistical data published by the relevant central banks.

Other borrowings from clients and subordinated debt

The fair value of other fixed-rate borrowings without quoted market prices is based on the discounted cash flows using interest rates for new liabilities with similar remaining maturity. The fair value of other borrowings, except for Subordinated debt (Note 2.3), approximates their carrying amount due to the fact that as at 31 December 2022 and 2021 most of them are subject to periodic renewal of the applicable interest rates.

Other assets and liabilities

Due to the short-term nature of other assets and liabilities, the Group's management believes that their fair value approximates their carrying amounts as at 31 December 2022 and 31 December 2021.

2.3.3. Fair value hierarchy

All assets and liabilities for which fair value is measured or for which fair value disclosure is required in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level of inputs which are significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level inputs that are significant to the fair value measurement are directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level inputs that are significant to the fair value measurement are unobservable.

For assets and liabilities that are measured at fair value on a recurring basis, the Group reviews their categorisation at the respective fair value hierarchy level at the end of each reporting period and determines whether transfer(s) should be made between levels.

Information on the fair value hierarchy of the Group's assets and liabilities measured as at 31 December 2022 and 31 December 2021 and any movements in the hierarchy during the respective financial period is presented in the following tables.

Notes to the financial statements (tables in BGN'000)

2.3.3.1. Quantitative disclosures on fair value hierarchy for 2022:

31 December 2022	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Securities at FVPL	–	–	–	–
Financial assets at FVOCI	133,578	–	92	133,670
Loans to individuals	–	–	5	5
Derivative financial instruments	–	9,570	–	9,570
Assets not measured at fair value				
Due from banks	–	69,806	–	69,806
Loans to corporate customers	–	–	249,888	249,888
Loans to individuals	–	–	1,148,155	1,148,155
Finance lease receivables	–	–	4,159	4,159
Liabilities measured at fair value				
Derivative financial instruments	–	11,322	–	11,322
Liabilities not measured at fair value				
Due to customers	–	–	1,555,490	1,555,490
Due to banks	–	–	–	–
Lease liabilities	–	–	11,137	11,137
Subordinated debt	19,843	–	40,718	60,561

Assets measured at fair value (Level 3) as at 1 January 2022	**387**
Transfers to Level 3	–
Repayments on loans	(290)
Total loss recognized in other comprehensive income	–
Loss on assets derecognised	–
Write off assets	–
Newly acquired assets/(sales) of assets	–
Foreign currency differences	–
Assets measured at fair value (Level 3) at 31 December 2022	**97**

Transfers were not made in 2022 between the fair value hierarchy levels, nor any changes in the valuation techniques used during the period.

Description of the valuation techniques and significant inputs to fair value measurement as at 31 December 2022:

	Valuation technique	Significant observable inputs	Range (weighted-average)	Sensitivity analysis
Loans to customers	Discounted cash flows	Statistical data of central banks for interest rates on new business by loans of sectors non-financial entities and mortgage loans by original maturity	3.07% - 16.75% (9.69%)	Increase/(decrease) in interest rates by 5% would result in a change in the fair value
Due to customers	Discounted cash flows	Statistical data of central banks for interest rates on new business by term deposits of sectors non-financial entities and households	0.1% - 5.00% (2.70%)	Increase/(decrease) in interest rates by 2% would result in a change in the fair value

Notes to the financial statements (tables in BGN'000)

2.3.3.2. Quantitative disclosures on fair value hierarchy for 2021:

31 December 2021	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Securities at FVPL	–	–	–	–
Financial assets at FVOCI	107,978	–	92	108,070
Loans to individuals	–	–	295	295
Derivative financial instruments	–	5,566	–	5,566
Assets not measured at fair value				
Due from banks	–	33,066	–	33,066
Loans to corporate customers	–	–	167,730	167,730
Loans to individuals	–	–	783,604	783,604
Finance lease receivables	–	–	4,908	4,908
Liabilities measured at fair value				
Derivative financial instruments	–	6,050	–	6,050
Liabilities not measured at fair value				
Due to customers	–	–	955,391	955,391
Due to banks	–	–	13,042	13,042
Lease liabilities	–	–	9,422	9,422
Subordinated debt	19,829	–	–	19,829

Assets measured at fair value (Level 3) as at 1 January 2021	**1 971**
Transfers to Level 3	–
Repayments on loans	(446)
Total loss recognized in other comprehensive income	–
Loss on assets derecognised	–
Write off assets	(833)
Newly acquired assets/(sales) of assets	(306)
Foreign currency differences	1
Assets measured at fair value (Level 3) at 31 December 2021	**387**

Transfers were not made in 2021 between the fair value hierarchy levels, nor any changes in the valuation techniques used during the period.

Description of the valuation techniques and significant inputs to fair value measurement as at 31 December 2021:

	Valuation technique	Significant observable inputs	Range (weighted-average)	Sensitivity analysis
Loans to customers	Discounted cash flows	Statistical data of central banks for interest rates on new business by loans of sectors non-financial entities and mortgage loans by original maturity	2.45% - 13.80% (7.80%)	Increase/(decrease) in interest rates by 5% would result in a change in the fair value
Due to customers	Discounted cash flows	Statistical data of central banks for interest rates on new business by term deposits of sectors non-financial entities and households	0.1% - 5.0% (2.70%)	Increase/(decrease) in interest rates by 2% would result in a change in the fair value

Notes to the financial statements (tables in BGN'000)

2.4. Liquidity risk

Liquidity risk is the risk that the available cash resources of the Group may be insufficient to cover the withdrawals on financial liabilities as they fall due, and the inability to replace funds when they are withdrawn. The consequences may lead to inability to cover liabilities for payments to depositors and to fulfil commitments to disburse loans.

2.4.1. Liquidity risk management process

The Group adopts appropriate liquidity risk management policies which have to ensure:

- that sufficient liquid assets are available to meet liabilities as they arise;
- financing of medium-term assets with medium-term liabilities in a prudent proportion;
- that the liquidity position is monitored on a daily basis and in the course of dealing operations.

The management board of the Group assigns the Asset and Liability Management Committee, as the primary responsible unit, with the task to advise the management board on liquidity management strategy.

The Asset and Liability Management Committee manages:

- the Group's assets and liabilities to ensure regular and timely meeting of current and future obligations;
- the Group's cash inflows and outflows (liquidity sources) and the ratios between assets and liabilities;
- liquidity ratios in compliance with preset indicators; and
- liquidity ratios recommended by the competent regulatory authority.

The operational management of the Group's assets and liabilities and the execution of the decisions of the Asset and Liability Management Committee are assigned to the head of the Financial Markets and Liquidity Department.

2.4.2. Financial liabilities

The table below presents the financial liabilities of the Group, payables to personnel and tax payables, other than those for income tax, by maturity groups based on the period remaining from the balance sheet date to the maturity date of the contract. The amounts disclosed in the table represent contractual undiscounted cash flows.

At 31 December 2022	**Gross outflow**	**Less than 1 month**	**1-3 months**	**3 -12 months**	**1-5 years**	**Over 5 years**
Due to banks	–	–	–	–	–	–
Current tax liabilities	1,348	–	–	–	1,348	–
Derivative financial instruments	11,322	143	1,475	9,704	–	–
Due to customers	1,586,526	391,372	255,770	669,471	269,913	–
Other liabilities	77,682	37,115	33,880	1,513	5,163	11
Subordinated debt	78,307	–	–	3,428	47,106	27,773
Lease liabilities	11,137	333	767	3,122	6,915	–
Total liabilities	**1,766,322**	**428,963**	**291,892**	**687,238**	**330,445**	**27,784**

Notes to the financial statements (tables in BGN'000)

At 31 December 2021	Gross outflow	Less than 1 month	1-3 months	3 -12 months	1-5 years	Over 5 years
Due to banks	13,042	13,042	–	–	–	–
Current tax liabilities	3,885	–	–	3,885	–	–
Derivative financial instruments	6,050	821	138	5,091	–	–
Due to customers	965,520	235,781	110,074	440,035	179,630	–
Other liabilities	62,645	27,174	28,579	6,887	5	–
Subordinated debt	29,826	–	–	–	1,027	28,799
Lease liabilities	9,422	–	440	1,283	7,699	–
Total liabilities	**1,090,390**	**276,818**	**139,231**	**457,181**	**188,361**	**28,799**

2.4.3. Contingent liabilities and irrevocable commitments

The maturity of the agreed amounts of contingent liabilities and irrevocable commitments, to which the Group is committed with respect to extension of the term of loans to customers and other terms and conditions, are presented in the following table. Financial guarantees are presented based on the earliest agreed maturity date.

As at 31 December 2022	Within 1 year	1-5 years	Total
Financial guarantees	193	30	223
Good performance guarantees	20	–	20
Undrawn loan commitments	127,797	5,898	133,695
Total	**128,010**	**5,928**	**133,938**

As at 31 December 2021	Within 1 year	1-5 years	Total
Financial guarantees	373	58	431
Good performance guarantees	40	–	40
Undrawn loan commitments	96,070	7,588	103,658
Total	**96,483**	**7,646**	**104,129**

Notes to the financial statements (tables in BGN'000)

2.4.4. Net liquidity gap

The table below presents an analysis of the Group's assets and liabilities by maturity structure at the balance sheet date, based on the remaining period to the agreed maturity dates.

As at 31 December 2022	On demand / 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Not defined	Total
Assets							
Cash and balances with central banks	359,379	–	–	–	–	–	**359,379**
Due from banks	25,369	384	2,091	41,962	–	–	**69,806**
Derivative financial instruments	–	–	–	9,570	–	–	**9,570**
Securities at FVPL	–	–	–	–	–	–	**–**
Financial assets at FVOCI	–	13,666	17,212	99,119	3,581	92	**133,670**
Loans to customers	167,518	82,866	292,788	842,844	12,896	–	**1,398,912**
Finance lease receivables	483	14	2,092	1,603	–	–	**4,192**
Other assets	44,392	4,034	1,304	933	–	–	**50,663**
Current tax assets	–	–	1,203	–	–	–	**1,203**
Intangible assets	–	–	–	–	–	27,422	**27,422**
Property, plant and equipment	–	–	–	–	–	28,403	**28,403**
Deferred tax assets	–	–	–	3,236	–	–	**3,236**
Acquired collateral	–	–	–	–	–	8,697	**8,697**
Total assets	**597,141**	**100,964**	**316,690**	**999,267**	**16,477**	**64,614**	**2,095,153**
Liabilities							
Due to banks	–	–	–	–	–	–	**–**
Current tax liabilities	–	–	–	1,348	–	–	**1,348**
Derivative financial instruments	143	1,475	9,704	0	–	–	**11,322**
Due to customers	374,103	237,352	656,978	289,090	–	–	**1,557,523**
Other liabilities	55,021	33,880	1,513	5,163	11	–	**95,588**
Lease liabilities	333	767	3,122	6,915	–	–	**11,137**
Subordinated debt	–	–	475	40,528	19,558	–	**60,561**
Total liabilities	**429,600**	**273,474**	**671,792**	**343,044**	**19,569**	**–**	**1,737,479**
Net liquidity gap	**167,541**	**(172,510)**	**(355,102)**	**656,223**	**(3,092)**	**64,614**	**357,674**
Cumulative cash flows	**167,541**	**(4,969)**	**(360,071)**	**296,152**	**293,060**	**357,674**	**N/A**

The Group monitors on a daily basis its liquid assets and liabilities by type of currency, amount and interest rates. With respect to a large portion of liabilities, comprising term deposits from individuals and legal entities, proper measures are taken to encourage the customers to renew their deposits. Deposits of legal entities are primarily in large amounts and historical experience shows that usually the terms and conditions are reviewed and agreed again immediately prior to their maturity.

Notes to the financial statements (tables in BGN'000)

As at 31 December 2021	On demand / 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Not defined	Total
Assets							
Cash and balances with central banks	208,230	–	–	–	–	–	208,230
Due from banks	22,241	1,956	–	–	8,869	–	33,066
Derivative financial instruments	70	54	5,311	70	61	–	5,566
Securities at FVPL	–	–	–	–	–	–	–
Financial assets at FVOCI	–	867	1,260	71,152	34,699	92	108,070
Loans to customers	133,790	58,787	230,118	533,485	849	–	957,029
Finance lease receivables	–	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
Property, plant and equipment	–	–	–	–	–	23,574	23,574
Deferred tax assets	–	–	990	–	–	–	990
Acquired collateral	–	–	–	–	–	8,887	8,887
Total assets	383,063	64,508	239,368	607,069	44,517	49,225	1,387,750
Liabilities							
Due to banks	13,042,	–	–	–	–	–	13,042
Current tax liabilities	–	–	3,885	–	–	–	3,885
Derivative financial instruments	821	138	5,091	–	–	–	6,050
Due to customers	235,641	109,797	435,216	175,060	–	–	955,714
Other liabilities	27,174	28,579	6,887	5	–	–	62,645
Lease liabilities	–	440	1,283	7,699	–	–	9,422
Subordinated debt	–	–	–	–	19,829	–	19,829
Total liabilities	**276,678**	**138,954**	**452,362**	**182,764**	**19,829**	–	**1,070,587**
Net liquidity gap	**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**	**N/A**

2.5. Fiduciary assets in custody

The Bank is registered as investment intermediary and performs transactions on behalf of its customers in compliance with the requirements of Ordinance 58 issued by the Financial Supervision Commission. The Bank has approved rules and procedures regulating its fiduciary transactions for customers, which have been prepared based on the requirements of art.1-10 of the above Ordinance 58.

2.6. Capital management

The objectives of the Group in managing capital, as a broader concept compared to the "equity" on the face of the statement of financial position, include:

- compliance with the capital requirements set by the regulators in the banking markets where the Group operates;
- ensuring the Group's ability to continue as a going concern so that it can continue to provide returns to the shareholders; and
- maintaining a strong capital base for the development of the Group's operations.

Capital adequacy and the use of equity are monitored by the Group's management employing techniques based on the guidelines developed by the Basel Committee, as well as the EU Directives, adopted by the Bulgarian National Bank, in its capacity of Regulatory Authority, for supervisory purposes. The information required is filed with latter on a regular basis.

The Regulatory Authority requires each bank or group of banks: (a) to hold a minimum level of equity of BGN 10,000 thousand and (b) to maintain a ratio of total regulatory capital to risk-weighted assets of 13.32%, formed based on total capital adequacy requirement of 8%, protective capital buffer of 2.5%, systemic risk buffer of 3%

for exposures in Bulgaria (1.39% from the total RWA), countercyclical buffer for Bulgaria of 1% (for the Bank is 0.68%), as well as an individual capital requirement for the bank of 0.75%. In October 2022 the National Bank of Romania adopted a 0.5% countercyclical buffer for exposures in Romania.

The Group's equity is divided into two tiers in accordance with the definitions and requirements of Regulation 575/2013 of the European Parliament and Council:

(a) Tier-one capital which comprises the following elements:

- registered and paid-in capital, excluding preference shares;
- reserve fund;
    - other reserves for general purposes set aside from profit after tax;
    - retained earnings from prior years;
    - current year profit less any taxes due, expected dividend payments and other deductions.

(b) Tier-two capital – subordinated debt.

The Group includes the retained earnings from prior years in its capital, only once the audited consolidated financial statements are approved by the sole owner of the capital and dividend payments and other deductions have been accounted for.

Once included in Tier-one capital, the retained earnings from prior years may be used to pay dividends only after approval by the Regulatory Authority.

The current year profit can be included in capital only if the following conditions are met:

- the maximum amount of expected dividend payments and other deductions is set;
- profit and taxes due are confirmed by the specialised audit firms employed by the Group;
- a notice is sent to the Regulatory Authority with attached documents evidencing the circumstances related to mandatory conditions and the Regulatory Authority has not objected and/or has given its approval.

Tier-one capital is reduced by:

- the current and prior year losses;
- the carrying amount of treasury shares held by the Group;
- the amount of intangible assets;
- the unrealised loss on financial assets carried at FVOCI.

The Group cannot include in its equity:

- reserves from cash flow hedges of items previously measured at amortised cost and cash flow hedges related to forecasted transactions;
- gains or losses on liabilities measured at fair value due to changes in the assessment of the credit quality of the Group;
- unrealised gain on investment properties and financial assets carried at FVOCI.

Equity is reduced by the carrying amount of investments in shares or other forms of shareholdings of more than 10% of the issued capital of a credit institution under the Credit Institutions Act, as well as investments in long-term debt (hybrid) instruments and subordinated debt in such institutions in which the Group holds more than 10% of the issued capital, for each individual case, where they are not consolidated in the Group's statement of financial position.

Risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting the assessment of credit, market and other related risks for each asset and counterparty, and taking into account any eligible collateral or guarantee.

A similar treatment is adopted for contingencies and commitments, with some adjustments to reflect the more contingent nature of potential losses.

Notes to the financial statements (tables in BGN'000)

The table below summarises the structure of equity and the Group's indicators as at 31 December of the respective reporting years. During these two years the Group has complied with the capital requirements for credit institutions.

	2022	2021
Tier-one capital		
Issued capital	81,600	81,600
Reserves and retained earnings from prior years	239,181	120,172
Less:		
Intangible assets	(20,993)	(11,488)
Other adjustments of tier-one capital	(19,320)	(9,430)
Total Tier-one capital	**280,468**	**180,854**
Tier-two capital		
Subordinated term debt	19,558	17,106
Total Tier-two capital	**19,558**	**17,106**
Total risk-weighted assets	**1,248,460**	**855,277**
Capital adequacy ratio	**24.03%**	**23.15%**

2.7. Operational risk

Operational risk is the risk of losses as a result of inadequate or non-functional internal processes, employees or systems, or due to external factors. This definition includes legal risk but excludes strategic and reputational risks. Legal risk includes, but is not limited to, being exposed to penalties, sanctions, or payment of compensation due to the actions of management or due to legal disputes.

With respect to operational risk in capital reporting, the Group uses the alternative standardised approach for calculating Minimum Capital Requirement for regulatory purposes under Pillar One.

Net income			**Capital requirements**	**Total amount of exposure to operational risk (x12.5) – 31.12.2021**
2019	**2020**	**2021**		
30,705	33,113	41,340	4,495	56,188

The value of the actual operating losses incurred in 2022 for TBI Bank was BGN 197 thousand, including BGN 24 thousand being reimbursed, representing 11% of the operational damage occurring in 2022.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment in future periods to the carrying amount of the asset or liability affected.

Accounting estimates and judgements are consistently applied and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of financial assets

The Group reviews its loan and lease portfolios to assess the need for impairment at least on a monthly basis. The Group divides the loan portfolio into two main categories according to the type of customer, i.e. corporate customers and individuals. The two main categories are further divided into subcategories according to the type of product, thus forming sub-portfolios with similar credit characteristics. The Group includes these sub-portfolios in the collective impairment model. All loans that cannot be included in these sub-portfolios are assessed for impairment on an individual basis. As a result of this segmentation corporate customers are assessed for impairment both collectively and individually, and individuals are considered for impairment collectively. In determining whether impairment loss should be recorded in the statement of comprehensive income the Group makes an analysis whether objective data exist indicating that there is significant decrease in the estimated future cash flows from a loan portfolio, before the decrease can be associated with an individual loan in that portfolio.

Such evidence may include observable data, indicating adverse change in the borrowers' ability to meet their loan obligations in the respective portfolio, or the national or local economic conditions that correlate with defaults on the repayments of the loans to the Group. Management uses estimates based on historical loss experience for assets with credit risk features and objective evidence for impairment similar to those in the portfolio when planning the cash flows. The methodology and assumptions used to estimate the amount and timing of the future cash flows are reviewed regularly, in order to reduce any differences between loss estimates and actual loss experience.

The key assumptions, estimates and parameters for the calculation of ECL are related to the development of quantitative and qualitative indicators for monitoring the possible substantial increase in credit risk, for the distribution of loan exposures over different stages (Note 2.1.3), for calculating probability of default, loss given default and exposure at default (Note 2.1.4), and also for including information on the future development of macroeconomic factors, in accordance with different scenarios for the estimation of ECL. The higher degree of approximation and uncertainty of judgment are inherent in estimating ECL for clients in Stage 1, Stage 2 and Stage 3, which is calculated collectively depending on the availability of supporting historical information in the Group for testing of the assumptions used and calibrating the accuracy of default judgments and loss given default in the impairment model. In addition, the calculation of loan impairment losses on individual basis is also related to the use of significant judgments and assumptions by management, mostly about the timing and amount of future cash flows, including the sale of collateral.

Collaterals

The value of collaterals representing real estates is determined by independent valuation experts, using generally accepted valuation techniques. Such techniques include the revenue method and the discounted cash flows method. In certain cases, fair values may be calculated based on recent transactions with real estates with similar features and locations as the collaterals. The calculation of the fair value of the collaterals requires the use of estimates, such as the future cash flows from the assets and the discount rates applicable to these assets. These estimates are based on the conditions at the local market existing as at the valuation date. The continuing volatility and uncertainty of the global financial system is reflected in the uncertainties at the real estate markets. Therefore, in determining the fair value estimates of the collaterals in 2022, the valuation experts have used their knowledge of the market and their professional judgement, and did not simply rely of historical benchmarks for the transactions. Under the circumstances, the estimated values of the collaterals are underpinned by a higher level of uncertainty than those existing in a more active market.

Assets acquired from foreclosure on collateral

The assets acquired as collateral on loans are classified as assets acquired from foreclosure on collateral. The Group measures collateral acquired in relation to non-performing loans at the lower of their value upon acquisition and the fair value less costs to sell. The calculation of the fair value of the collaterals requires the use of estimates, such as the future cash flows from the assets and the discount rates applicable to these assets. These estimates are based on the conditions at the local market existing as at the valuation date. The Group's management has committed to specific actions aimed at the realisation of these assets through sale.

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Notes to the financial statements (tables in BGN'000)

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not the option to renew or terminate the lease will be exercised. That is, the Group considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g. construction of significant leasehold improvements or significant customisation to the leased asset).

Refer to Note 25 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Provisions and contingent liabilities

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it can be involved in various litigation, arbitration and regulatory investigations and proceedings, arising in the ordinary course of the its business. When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates. For further details see Note 27.

Fair value of financial instruments, which are not traded on active markets

When the fair values of the financial assets and liabilities in the statement of financial position cannot be determined by reference to an active market, they are calculated based on different techniques, which include the use of valuation models. The input data for these models are based, when possible, on observable market indicators. Otherwise assumptions need to be made in order to determine the fair value. These assumptions include factors like liquidity, volatility for long-term derivatives, discount rates, prepayments and default.

Analysis of the components of effective interest rate (EIR)

In 2022 the management performed a detailed analysis of the components which form part of the effective interest rate of financial instruments carried at amortized cost in accordance with the requirements of IFRS 9, par. 5.4.1. The reviewed components and their respective treatment are presented in the following table:

#	Income / expense	Part of EIR
1	Up-front fees income from clients	Yes
2	Check-up fees expense	Yes
3	Merchants' commissions (per contract) expense	Yes
4	Merchants' target bonus	Yes
5	Fixed salaries of sales personnel	No
6	Staff bonus for achieved loan sales volumes target	Yes
7	Staff bonus for tenor of portfolio generated	Yes
8	Staff bonus for achieved target for average interest income	Yes
9	Staff bonus for sales of insruance policies	No
10	Staff bonus for number of phone calls to clients	No
11	Staff bonus for number of applications received	No
12	Staff bonus for achieving target of number of new partners	No
13	Staff bonus for achieving target of number of active partners	No
14	Staff bonus for number of customers	No
15	Staff bonus for attracting new clients	No
16	Staff bonus for commercial and operational support targets	No

Notes to the financial statements (tables in BGN'000)

As a result of the analysis, after applying the principles of the relevant treatment, the financial data for 2021 would have been impacted as follows:

Financial statements line	Date/period	Effect	Amount
Loans to customers	31/12/21	Decrease	2,085
Personnel expenses	2021	Increase	901
Fee and commission expense	2021	Decrease	1,336
Interest income calculated using the EIR method	2021	Decrease	967
Profit for the year	2021	Decrease	479
Retained earnings	Opening balance for 2021	Decrease	1,553

The decrease in line Loans to customers would amount to 0.2% of its balance and to 0.7% of the equity of the bank as of 31 December 2021. The adjustments in lines Personnel expenses, Fee and commission expense and Interest income calculated using the EIR method would offset each other almost fully and would result in a net effect of BGN 479 thousand or 0.7% of the profit for 2021 and BGN 532 thousand or 1% of the profit before taxes for 2021. The impact of these adjustments on the key financial indicators for 2021 would have been:

- Capital adequacy ratio (CAR) – 0.0%
- Tier 1 capital adequacy ratio (CAR Tier 1) – 0.0%
- Net stable funding ratio (NSFR) – unaffected
- Liquidity coverage ratio (LCR) – unaffected
- Return on equity – 0.1% decrease
- Interest marging – 0.0%

Following the analysis, the management believes that the effects described above are not material for 2021 for the users of the financial statements, and has reported the results from the analysis in 2022.

Going concern

The Group's financial forecasts reflect the results that management considers most likely, based on the information available as of the date of signing of these consolidated financial statements. In order to evaluate the flexibility of the Group in the light of more unfavourable results, a sensitiviy analysis was carried out, reflecting a series of scenarios, based on the Group's major risks and the negative economic trends in the Group's enivronment. Management believes that the Group will continue its activities as going concern, and based on the results from the performed stress tests, the Group will be able to deal also with a negative scenario. Management will continue to monitor strictly the development of the pandemic and will react accordingly.

4. Net interest income

	2022	2021
Interest income calculated using the EIR method and similar income		
Loans to customers	267,577	211,626
Finance lease receivables	96	418
Due from banks	1,781	195
Financial assets carried at fair value through PL	–	108
Financial assets carried at fair value through OCI	2,627	5,502
Total interest income applying EIR method and similar income	**272,081**	**217,849**
Interest expenses calculated using the EIR method and similar expnese		
Due to / due from banks	1,104	1,505
Due to customers	20,541	11,359
Subordinated debt	1,161	174
Lease liabilities	247	428
Total interest expenses applying EIR method and similar expense	**23,053**	**13,466**
Net interest income	**249,028**	**204,383**

Notes to the financial statements (tables in BGN'000)

Line Due from banks includes negative interest at the amount of BGN 4 thousand, which have not been calculated using the EIR method. Line Due to / due from banks includes negative interest at the amount of BGN 410 thousand, as well as lease liabilities interest at the amount of BGN 247 thousand which have not been calculated using the EIR method.

5. Net fee and commission income

	2022	2021
Fee and commission income		
For activities as an insurance agent	75,221	54,374
For transaction-related and deposit-maintenance services	3,279	2,886
For issuance of guarantees and letters of credit	46	44
Total fee and commission income under contracts with customers	**78,546**	**57,304**
Other fees	585	594
Total fee and commission income	**79,131**	**57,898**
Fee and commission expenses		
Brokerage commissions	8,744	15,306
Bank transactions	3,156	3,762
Other fees	617	58
Total fee and commission expense	**12,517**	**19,126**
Net fee and commission income	**66,614**	**38,772**

Insurance agent's commission income originates from an insurance agency contract. Brokerage commissions relate to a credit brokerage contract.

6. Net trading losses

At 31 December 2022, net trading gains and losses include results from swaps, forwards and spots: loss BGN 12,780 thousand (2021: BGN 2,096 thousand).

7. Other gains/(losses), net

	2022	2021
Net loss on written-off debts	(2,505)	(393)
Net gain/(loss) revaliation on derivative financial instruments	(1,597)	1,806
Net loss on foreign currency revaluation	(570)	(3,305)
Written-off payables	88	60
Provisions	62	(3,745)
Income from re-invoiced amounts to related parties	13	154
Net gain/(loss) on sale of assets acquired from foreclosure on collateral	13	802
Net loss on sale of financial assets at FVPL	–	(49)
Net gain/(loss) on sale of financial assets at FVOCI	–	2,662
Other	2,646	303
Total other operating expenses	**(1,850)**	**(1,705)**

Line "Provisions" as of 31 December 2021 incudes amounts that the Group may owe to the Romanian state under legislation which came in force in 2021 and with relation to transactions which were carried out by the Group in previous periods.

Notes to the financial statements (tables in BGN'000)

8. Staff costs

	2022	2021
Wages and salaries	82,691	68,394
Social security contributions	6,802	5,146
incl. pension fund	*2,885*	*2,377*
Total staff costs	**89,493**	**73,540**

The number of the Group's employees at the end of 2022 is 1,863 (2021: 1,765 employees).

9. Other operating expenses

	2022	2021
IT services	16,722	12,289
Consulting, legal and other professional services	12,451	7,679
Marketing and advertising	8,133	6,181
Other hired services	7,342	5,155
Office materials	3,750	2,975
Annual contribution to FOBR and DGF	2,327	1,653
Operating lease rent	398	983
Tax expenses, different from income tax	378	495
Other	4,482	2,098
Total other operating expenses	**55,983**	**39,508**

Line "Consulting, legal and other professional services" includes the amounts charged throughout the year for the services provided by the registered joint auditors of the Group which are as follows: for independent financial audit: BGN 455 thousand (2021: BGN 376 thousand), as well as other services worth BGN 237 thousand; for advisory services delivered by the registered auditors' related parties in Bulgaria: BGN 75 thousand (2021: 38 thousand), and for other non-audit services: BGN 1 thousand (2021: BGN 2 thousand).

10. Income tax expense

	2022	2021
Current income tax expense	14,180	14,029
Deferred tax benefit relating to temporary differences	(2,246)	(125)
Income tax recognised in profit	**11,934**	**13,904**

The applicable income tax rate is 10% for both 2022 and 2021.

The movement in the current income tax receivables is as follows:

	2022	2021
Receivable/(liability) as at 1 January	(3,666)	860
Current tax recognised in profit	(14,180)	(14,029)
Current tax recognised in other comprehensive income (Note 29)	1,231	157
Tax refunded during the year	(367)	(2,081)
Amounts paid during the year	16,837	11,427
Receivable/(liability) at 31 December	**(145)**	**(3,666)**

The amounts of income tax paid are presented in the Statement of Cash Flows net of any reimbursements during the year.

Notes to the financial statements (tables in BGN'000)

The reconciliation between the income tax expense and the accounting profit multiplied by the tax rate applicable for the years ending 31 December 2022 and 2021 is presented below:

	2022	2021
Profit before tax	83,193	67,674
Nominal tax rate	*10%*	*10%*
Tax on the basis of the nominal tax rate	8,318	6,767
Effects of different nominal tax rates in other jurisdictions	1,970	4,253
Tax effect of non-taxable income and expenses	1,211	2,884
Tax effect of income exempt from taxes	435	–
Tax expenses	**11,034**	**13,904**
Effective tax rate (%)	**14.35%**	**20.55%**

The movement of deferred taxes recognised in accounting profit is related to the following temporary differences:

	2022	2021
Increase in unused leaves provision	11	(70)
Increase in retirement benefit liability	(14)	(34)
Decrease / (increase) in other payables provision	15	104
Increase in bonus provision	(195)	(145)
Increase coming from losses available for offsetting against future taxable income	(1,018)	–
Increase coming from different tax rates in foreign jurisdictions	(1,002)	–
IFRS adoption	(43)	20
Deferred income tax benefit recognized in profit	**(2,246)**	**(125)**

The movement of taxes recognised in other comprehensive income is as follows:

Revaluation of assets at FVOCI	1 231	157
Tax benefit recognised in other comprehensive income	**1 231**	**157**

Deferred taxes at 31 December 2022 and 2021:

	2022	2021
Deferred tax assets		
Unused annual paid leaves provision	145	156
Retirement benefits	125	111
Other payables provision	6	21
Bonus accrual	628	433
Losses available for offsetting against future taxable income	1,019	–
Differences from tax rates in foreigh jurisdictions	1,002	–
IFRS adoption	311	269
Total	**3,236**	**990**

11. Cash and balances with central banks

	2022	2021
Cash on hand	45,508	16,789
Cash in accounts with central banks, other than Minimum statutory reserve	184,752	101,797
Cash and cash equivalents for the purposes of cash flows (Note 30)	**230,260**	**118,586**
Minimum statutory reserve	129,119	89,644
Total cash on hand and cash in accounts with central banks	**359,379**	**208,230**

Notes to the financial statements (tables in BGN'000)

As at 31 December 2022, the statutory minimum reserves held with the Bulgarian National Bank (BNB) amounted to 10% (2021: 10%) of the deposits attracted, except: 5% of funds attracted from abroad, and 0% of funds attracted from other local banks, through branches of a local bank abroad, as well as through debt/equity (hybrid) instruments, such as subordinated term debt. As at 31 December 2022, the statutory minimum reserves held at the National Bank of Romania (NBR) amounted to 8% of the funds attracted in new Romanian Lei and 8% of the funds attracted in currencies other than new Romanian Lei, except for funds attracted from other local banks and funds attracted with residual maturity of less than two years without early termination clauses. The statutory minimum reserves are not available for use in the Bank's day-to-day operations. BNB can charge interest on the statutory minimum reserves and excess reserves, and the interest charged may be a negative figure, while those in NBR are positive interest-bearing.

12. Due from banks

	2022	2021
Deposits with foreign banks with original maturity of up to three months	384	404
Deposits with local banks with original maturity of up to six months	12,400	12,172
Current accounts with foreign banks	25,248	17,803
Current accounts with local banks	122	2,691
Loans to banks	31,693	–
Allowance for expected credit losses	*(41)*	*(4)*
Included in cash and cash equivalents for the purpose of the consolidated statement of cash flows (Note 30)	**25,370**	**22,622**
Total due from banks	**69,806**	**33,066**

As at 31 December 2022 deposits serving as collateral on derivative financial instruments, are included in Deposits with local banks with original maturity up to six months (Notes 28 and 2.4.4).

13. Securities at fair value

Securities at fair value through OCI	**2022**	**2021**
Government debt securities traded in an official market		
Government securities Bulgaria	44,369	50,514
Government securities Romania	30,283	21,055
Government securities USA	27,087	–
Government securities Croatia	7,923	9,013
Government securities Montenegro	2,311	2,714
Government securities Serbia	3,436	4,244
Government securities Turkey	6,017	6,039
Total	**121,426**	**93,579**
Other debt securities traded in an official market		
Financial institutions	12,152	14,399
Total	**12,152**	**14,399**
Equity securities not traded in an official market	92	92
Equity securities traded in an official market	–	–
Total	**92**	**92**
Total financial assets at fair value through OCI	**133,670**	**108,070**

The corporate and government bonds are issued in EUR and USD. Debt and equity securities are measured at fair value based on quoted market prices at the date of the financial statements.

Notes to the financial statements (tables in BGN'000)

The securities at fair value through profit or loss include entirely debt securities traded in an official market.

14. Loans to customers

	2022	2021
Corporate customers	259,415	179,907
Individuals	1,275,381	877,089
Staff	1,957	1,568
Total loans to customers	**1,536,753**	**1,058,564**
Allowance for expected credit losses (Note 16)	(137,841)	(101,535)
Total net loans to customers	**1,398,912**	**957,029**

As at 31 December 2022 loans to customers included repo deals at the amount of BGN 19,646 thousand (2021: none). The contracts expire in January 2023.

Loans to customers are recognized at amortised cost, except for the loans to individuals at the amount of BGN 11 thousand (2021: 348 thousand), which as at 31 December 2022 are reported at fair value through profit or loss. As at 31 December 2022 the fair value of these amounts to BGN 6 thousand (2021: 53 thousand).

Loans to customers include interest accrued of BGN 28,940 thousand (2021: BGN 19,434 thousand). Loans to customers bearing floating interest rates amount to BGN 205,659 thousand (2021: BGN 151,645 thousand), and loans to customers bearing fixed interest rate amount to BGN 1,330,486 thousand (2021: BGN 906,919 thousand).

15. Finance lease receivables

	2022	2021
Gross receivables from finance leases, due:		
- not later than one year	2,128	1,460
- later than one and not later than five years	1,641	604
- later than five years	860	4,134
Gross investment in finance leases	**4,629**	**6,198**
Less gross earnings (finance charges) allocated to future periods	(27)	(593)
Less allowance for expected credit losses	(410)	(465)
Net investment in finance leases	**4,192**	**5,140**

At 31 December 2022 and 2021 the Group had no revocable sub-lease contracts.

Notes to the financial statements (tables in BGN'000)

16. Credit loss expense on financial assets

The allowance for expected credit losses (ECL) on loans extended to customers as at 31 December 2022 is presented in the table below by stage and type of customer:

Allowance for ECL on loans and leases	**Balance at 01.01.2022**	**Changes in accrued credit loss**	**Write-offs**	**Other differences**	**Balance at 31.12.2022**
Stage 1	**(27,883)**	**(9,938)**	**–**	**65**	**(37,756)**
Corporate customers	(796)	(520)	–	2	(1,314)
Individuals	(27,087)	(9,418)	–	63	(36,442)
Collectively assessed	(27,732)	(10,070)	–	65	(37,737)
Individually assessed	(151)	132	–	–	(19)
Stage 2	**(11,444)**	**(5,899)**	**–**	**9**	**(17,334)**
Corporate customers	(711)	(69)	–	1	(779)
Individuals	(10,733)	(5,830)	–	8	(16,555)
Collectively assessed	(11,294)	(6,030)	–	9	(17,315)
Individually assessed	(150)	131	–	–	(19)
Stage 3	**(62,673)**	**(77,168)**	**56,670**	**10**	**(83,161)**
Corporate customers	(5,734)	(2 507)	877	12	(7,352)
Individuals	(56,939)	(74,661)	55,793	(2)	(75,809)
Collectively assessed	(59,815)	(77,595)	56,531	11	(80,868)
Individually assessed	(2,858)	427	139	(1)	(2,293)
Total	**(102,000)**	**(93,005)**	**56,670**	**84**	**(138,251)**

Loans to customers below include sales at the amount of BGN 30,811 thousand.

Credit loss expense on financial assets 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets at FVOCI	73	–	–	73
Due from banks	(33)	–	–	(33)
Loans to customers and leases	(9,938)	(5,899)	(46,357)	(62,194)
including: income from sale of debts	–	–	30,811	30,811
Total	**(9,898)**	**(5,899)**	**(46,357)**	**(62,154)**

Notes to the financial statements (tables in BGN'000)

Allowance for ECL on loans and leases	**Balance at 01.01.2021**	**Allowance on loans acquired**	**Changes in accrued credit loss**	**Write-offs**	**Other differences**	**Balance at 31.12.2021**
Stage 1	**(18,307)**	–	**(9,743)**	**45**	**122**	**(27,883)**
Corporate customers	(916)	–	108	–	12	(796)
Individuals	(17,391)	–	(9,851)	45	110	(27,087)
		–				
Collectively assessed	(18,179)	–	(9,718)	45	120	(27,732)
Individually assessed	(128)	–	(24)	–	1	(151)
		–				
Stage 2	**(11,125)**	–	**(362)**	**18**	**25**	**(11,444)**
Corporate customers	(1,253)	–	529	-	13	(711)
Individuals	(9,872)	–	(891)	18	12	(10,733)
		–				
Collectively assessed	(10,631)	–	(702)	18	21	(11,294)
Individually assessed	(494)	–	340	–	4	(150)
		–				
Stage 3	**(74,057)**	–	**(63,853)**	**74,096**	**1,141**	**(62,673)**
Corporate customers	(7,902)	–	(2,737)	4,518	387	(5,734)
Individuals	(66,155)	–	(61,116)	69,578	754	(56,939)
Collectively assessed	(68,753)	–	(63,862)	71,688	1,112	(59,815)
Individually assessed	(5,304)	–	8	2,408	30	(2,858)
Total	**(103,489)**	–	**(73,958)**	**74,159**	**1,288**	**(102,000)**

Loans to customers below include sales at the amount of BGN 22,901 thousand.

Credit loss expense on financial assets 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets at FVOCI	(263)	–	–	**(263)**
Due from banks	(13)	–	–	**(13)**
Loans to customers and leases	(9,743)	(362)	(40,952)	**(51,057)**
including: income from sale of debts	–	–	*22,901*	*22,901*
Total	**(10,019)**	**(362)**	**(40,952)**	**(51,333)**

17. Structure of the loan portfolio by economic sectors

The structure of the loan portfolio by economic sectors is as follows:

	2022	**2022**	**2021**	**2021**
Construction and real estate	145,203	9.45%	100,605	9.50%
Services	35,843	2.33%	20,306	1.92%
Other financial institutions	24,798	1.61%	12,485	1.18%
Commerce	23,676	1.54%	19,867	1.88%
Tourism	17,433	1.13%	12,555	1.19%
Manufacturing	8,222	0.54%	7,017	0.66%
Agriculture	4,240	0.28%	7,072	0.67%
Individuals	1,275,381	82.99%	877,089	82.86%
Staff	1,957	0.13%	1,568	0.15%
Total loans to customers	**1,536,753**	**100.00%**	**1,058,564**	**100.00%**

The ten largest loans to customers as of 31 December 2022 represent 5.04% of the Group's portfolio, net of provisions (2021: 4.68%).

Notes to the financial statements (tables in BGN'000) tbi bank

18. Assets acquired from foreclosure on collateral

	2022	2021
Book value	9,630	9,976
Accumulated impairment	(933)	(1,089)
Total assets acquired from foreclosure on collateral	**8,697**	**8,887**

At 31 December 2022 assets repossessed by the Group under terminated or past due loan contracts amounted to BGN 8,697 thousand, net of impairment (2021: BGN 8,887 thousand). The Group accrued impairment of BGN 933 thousand at 31 December 2022 (2021: BGN 1,089 thousand), where the position Assets repossessed is presented net of impairment.

In 2022, through sales, the Group sold assets reported in these category at the amount of BGN 899 thousand (2021: BGN 2,738 thousand). The impairment written off on these assets is BGN 166 thousand (2021: 772 thousand). In 2022 the Group did not acquire assets to be classified as Assets acquired from foreclosure on collateral (2021: BGN 3,402 thousand)..

The Group intends to sell the assets acquired from foreclosure on collateral within the next reporting periods depending on market conditions and if the best price can be achieved.

The movement in the impairment of assets acquired from foreclosure on collateral is as follows:

At 1 January 2021	**1,668**
Impairment charged	214
Impairment written off	(772)
Foreign currency difference	(21)
At 31 December 2021	**1,089**
Impairment charged	–
Impairment written off	(166)
Foreign currency difference	10
At 31 December 2022	**933**

Notes to the financial statements (tables in BGN'000)

19. Intangible assets

	Software	Other	Total
Balance at 1 January 2021			
Book value	15,721	5,975	21,696
Accumulated amortisation	(8,586)	(276)	(8,862)
Carrying amount	**7,135**	**5,699**	**12,834**
Year ending 31 December 2021			
Carrying amount at the beginning of the year	7,135	5,699	12,834
Additions	1,977	4,052	6,029
Disposals	–	–	–
Transfers	1,698	(1,698)	–
Foreign currency differences	(39)	1	(38)
Amortisation	(2,138)	(15)	(2,153)
Carrying amount at the year-end	**8,633**	**8,039**	**16,672**
As of 31 December 2021			
Book value	19,523	8,092	27,615
Accumulated amortisation	(10,890)	(53)	(10,943)
Carrying amount at the year-end	**8,633**	**8,039**	**16,672**
Year ending 31 December 2022			
Carrying amount at the beginning of the year	8,633	8,039	16,672
Additions	8,060	6,552	14,612
Disposals	–	–	–
Transfers	523	(523)	–
Impairment	(1,709)	–	(1,709)
Foreign currency differences	–	–	–
Amortisation	(2,136)	(17)	(2,153)
Carrying amount at the year-end	**13,371**	**14,051**	**27,422**
At 31 December 2022			
Book value	24,790	14,119	38,909
Accumulated amortisation	(11,419)	(68)	(11,487)
Carrying amount at the year-end	**13,371**	**14,051**	**27,422**

Other intangible assets include software in process of development.

At the end of 2022, the book value of intangible assets, fully amortised, but still in use, amounted to BGN 7,824 thousand (2021: BGN 6,903 thousand).

Notes to the financial statements (tables in BGN'000)

20. Property and equipment

	Buildings	Equipment	Motor vehicles	Leasehold improvements	Right-of-use assets Buildings	Right-of-use assets Other	Total
At 1 January 2021							
Book value	10,608	12,267	647	1,654	13,218	2,276	40,670
Accumulated depreciation	(2,318)	(8,195)	(633)	(824)	(7,205)	(855)	(20,030)
Carrying amount	**8,290**	**4,072**	**14**	**830**	**6,013**	**1,421**	**20,640**
Carrying amount at 1 January 2021	8,290	4,072	14	830	6,013	1,421	20,640
Additions	10	2,025	–	981	5,284	298	8,598
Disposals	–	(3)	–	–	(225)	(155)	(383)
Transfers	–	–	–	–	–	–	–
Foreign currency differences	(117)	(103)	(9)	(8)	(84)	(29)	(350)
Depreciation	(301)	(952)	(3)	(298)	(2,814)	(563)	(4,931)
Carrying amount at 31 December 2021	7,882	5,039	2	1,505	8,174	972	23,574
At 31 December 2021							
Book value	10,500	12,034	591	2,616	16,327	2,160	44,228
Accumulated depreciation	(2,619)	(6,995)	(589)	(1,110)	(8,153)	(1,188)	(20,654)
Carrying amount	**7,882**	**5,039**	**2**	**1,505**	**8,174**	**972**	**23,574**
Carrying amount at 1 January 2022	**7,882**	**5,039**	**2**	**1,505**	**8,174**	**972**	**23 574**
Additions	28	4,358	–	1,151	12,009	4,589	22,135
Disposals	–	(347)	–	–	(7,192)	(3,773)	(11,312)
Transfers	134	(184)	–	50	–	–	–
Foreign currency differences	(1)	4	–	20	2	(1)	23
Depreciation	(346)	(1,600)	(2)	(487)	(3,077)	(506)	(6,018)
Carrying amount at 31 December 2022	**7,697**	**7,270**	–	**2,239**	**9,916**	**1,281**	**28,403**
At 31 December 2022							
Book value	10,661	15,173	481	3,644	18,493	2,526	50,978
Accumulated depreciation	(2,964)	(7,903)	(481)	(1,405)	(8,577)	(1,245)	(22,575)
Carrying amount	**7,697**	**7,270**	–	**2,239**	**9,916**	**1,281**	**28,403**

At the end of 2021, the book value of property and equipment, fully depreciated, but still in use, amounted to BGN 7,672 thousand (2021: BGN 5,169 thousand).

Notes to the financial statements (tables in BGN'000)

21. Other assets

	2022	2021
Receivables from suppliers	18,826	5,476
Assignment receivables	4,370	705
Insurance receivables	4,774	176
Margin call for derivatives	3,964	2,067
Court fees	2,321	2,001
Deferred expenses	2,027	3,509
Other taxes and government agencies	1,539	1,497
Collateral MasterCard	866	835
Rental deposits	539	544
VAT refundable	2	3
Other receivables	11,435	3,494
Total other assets	**50,663**	**20,307**

At 31 December 2022 and 31 December 2021, other receivables are neither past due nor impaired as the loss given default is 0%, and are classified in Stage 1. Other financial assets comprise monthly receivables on assignment contracts at amortised cost. All assets are financial, except for Deferred expenses, VAT refundable and Other taxes and government agencies.

Receivables from supplies include a deposited cassation appeal by the Bank further to a court case initiated by Right Decision EOOD for presumable due but unpaid attorney fees at the amount of BGN 1,521 thousand. On 28 October 2020 a first-instance court decision was issued, fully in favour of the Bank, published on the website fo the Sofia City Court. The decision has been appealed by the plaintiff. A court decision is expected in 2023. This line includes also the receivables from suppliers of financial services, with which the Bank has agreements for the utilization and repayment of credits.

The Bank has derivative agreements with other banks. These agreements require the Bank to maintain an initial margin, i.e. an initial amount which TBI Bank EAD deposits with the counterparty bank in order to initiate foreign currency or interest rate derivative transactions. In the course of these transactions, the Bank faces also a requirement for a supporting margin, representing the amount that TBI Bank EAD deposits with the counterparty bank on a daily basis in order to cover the accumulated open position revaluation losses arising from all positions as of a specified date, compared to the market levels for that date. In case of positive revaluation of the open position, the Bank will receive these amounts in its margin account with the counterparty. As a result, as of 31 December, the Bank is entitled an amount for derivative transactions which hasn't been utilized yet.

22. Due to banks

As of 31 December 2022 the Group does not have amounts due to banks. Deposits due to banks at 31 December 2021 BGN 13,042 thousand and include short-term deposits on the interbank money market with residual maturity of 1 month.

23. Due to customers

	2022	2021
Corporate customers		
- current/settlement accounts	129,902	56,066
- term deposits	52,148	45,690
Individuals		
- current/settlement accounts	130,063	96,190
- term deposits	1,245,410	757,768
Total deposits due to customers	**1,557,523**	**955,714**

Notes to the financial statements (tables in BGN'000) tbi bank

Deposits due to customers at the end of 2022 include interest payable of BGN 13,795 thousand (2021: BGN 8,699 thousand), with an average interest rate of 2.98% (2021: 1.33%).

24. Other liabilities

	2022	2021
Prepaid repayment instalments on loans to individuals	36,322	28,369
Payables to traders and suppliers	31,612	12,683
Payables to employees	6,518	5,646
Other provisions (Note 7)	3,940	4,086
Tax payable, other than income tax	2,771	1,996
Unused annual paid leave provisions	2,565	1,632
Provisions for defined employee benefits	2,112	2,188
Derivaties margin	1,907	2,400
Transfers for execution	209	284
Other liabilities	7,632	3,361
Total other liabilities	**95,588**	**62,645**

Prepaid repayment instalments on loans to individuals represent instalments that have not matured yet. Upon request by a customer, the Group is obliged to repay the amounts to the respective borrower. The litigation provisions accrued as of 31 December 2022 amount to BGN 3,940 thousand (2021: 3,940 thousand). All liabilities are financial, except for tax liabilities and accrued provisions.

The Bank has derivative agreements with other banks. These agreements require the Bank to maintain an initial margin, i.e. an initial amount which TBI Bank EAD deposits with the counterparty bank in order to initiate foreign currency or interest rate derivative transactions. In the course of these transactions, the Bank faces also a requirement for a supporting margin, representing the amount that TBI Bank EAD deposits with the counterparty bank on a daily basis in order to cover the accumulated open position revaluation losses arising from all positions as of a specified date, compared to the market levels for that date. In case of positive revaluation of the open position, the Bank will receive these amounts in its margin account with the counterparty. As a result, as of 31 December, the Bank is entitled an amount for derivative transactions which hasn't been utilized yet.

25. Lease liabilities

Lease liabilities include liabilities of the Group under asset lease agreements, with leases of office premises accounting for the main part of the carrying amount of right-of-use assets as of 31 December 2022.

The Group applies the IFRS 16, par. 6 exemption for the recognition of short-term leases and leases of low-value items.

For more information on IFRS 16, par. 51-60, refer to Notes 2.4.2, 4 and 9.

26. Subordinated debt

As at 31 December 2022 the subordinated debt consisted of issued debt securities in the amount of BGN 19,843 thousand and loan agreements in the amount of BGN 40,718 thousand.

Subordinated debt consisits of bonds issued in Jul 2021 by TBI Bank EAD in Bulgaria with the following details:

ISIN	BG2100007215
Total amount issued	EUR 10,000,000
Nominal amount	EUR 100,000
Interest rate	5.25%
Interst payment	Annual
Term	10 years

Notes to the financial statements (tables in BGN'000)

Loan agreements with credit institutions amount to BGN 31,691 thousand and loan agreements with financial institutions amount to BGN 9,027 thousand. These were concluded under the requirements of the Law on recovery and restructuring of credit institutions and investment intermediaries and art. 72a-72b of Regulation (EU) 575/2013 of the European Parliament and of the Council dated 26 June 2013, so that the instruments subject to the agreements will be acceptable subordinated liabilities. The term of each loan is fixed at three or four years. The loans bear fixed interest at 5-7% p.a.

27. Contingent liabilities and irrevocable commitments

The Group's contingent liabilities are related to its commitments to extend loans, credit lines, letters of credits and guarantees intended to meet the requirements of its customers.

Contingencies on loans and credit lines extended by the Group represent contractual commitments to unconditionally provide a specified amount to the customer under the provisions of the loan agreement in the part related to the utilisation, as well as an obligation of the Group to maintain continuously amounts available up to those agreed to in the credit line agreements. Upon expiry of the fixed deadline the obligations, regardless of whether utilised or not, the contingency for the Group expires as well.

Guarantees and letters of credit oblige the Group, if necessary, to make a payment on behalf of the customer – if the customer fails to discharge its obligations within the term of the agreement. The Group recognises the provision in its financial statements in the period of the occurred change.

	2022	2021
Guarantees		
Corporate customers	243	471
Undrawn credit commitments		
Corporate customers	37,149	37,191
Individuals	96,546	66,467
Total contingent liabilities and irrevocable commitments	**133,938**	**104,129**

As of 31 December 2022 the Bank has no contingent liabilities related to lawsuits.

28. Pledged assets

As of 31 December 2022, the Group pledged as collateral deposits placed with foreign and local banks against derivative contracts concluded (FX swaps), representing economic hedging transactions of the currency risk found. The Group has no right to dispose of the deposits provided as collateral prior to the expiry of the economic hedge contract term. The outcome of FX risk hedging at 31 December 2022 and 31 December 2021 is summarized in Note 2.2.1. Other assets consist of guarantee depositc to the benefit of Mastercard Europe S.A. and Visa Europe Limited at the amount of BGN 638 thousand (2021: BGN 835 thousand) and derivatives margin accounts at the amount of BGN 3,964 thousand (2021: BGN 2,067 thousand).

	2022	2021
Placements with foreign banks	384	404
Placements with local banks	12,400	10,443
Other assets	4,602	2,902
Total pledged assets	**17,386**	**13,749**

29. Equity

The total number of the registered ordinary dematerialised shares at 31 December 2022 is 81,600,000 (2021: 81,600,000), with nominal value of BGN 1 each. All shares are fully paid-in and vest equal voting rights.

The Group's management has not changed its capital management methodology as compared to 2021.

Notes to the financial statements (tables in BGN'000)

Issued capital

The table below presents the majority shareholders of the Group at the end of 2022 and 2021:

	31 December 2022		31 December 2021	
	BGN	%	BGN	%
TBI Financial Services B.V.	81,600,000	100.00%	81,600,000	100.00%
Total	**81,600,000**	**100.00%**	**81,600,000**	**100.00%**

Translation reserve from foreign operations

The reserve from translation of financial statements of foreign operations as at 31 December 2022 is negative and amounts to BGN 1,646 thousand (2021: BGN 1,571 thousand, negative), and includes the translation of the operations of the branch of the Group in Romania from its functional currency – the new Romanian lei (RON) into the presentation currency of the Group – Bulgarian leva.

Unrealized revaluation reserve on financial assets at FVOCI

The unrealized revaluation reserve on financial assets at fair value through other comprehensive income includes unrealised gains and losses on fair value movements of the instruments. The annual movements are included in the statement of comprehensive income. As at 31 December 2022, the accumulated revaluation reserve was positive and amounted to BGN (10,512) thousand (2021: BGN 601 thousand, positive).

Realized revaluation reserve on financial assets at FVOCI

The reserve includes realized net losses on sold equity instruments carried at fair value through OCI at the amount of BGN 7,367 thousand (net of taxes) as of 31 December 2022.

Statutory reserves

In accordance with the requirements of the Commercial Act the Bank is required to set Reserves Fund equalling at least 1/10 of the profit, which is set aside until the fund reaches 1/10 or more of the capital set out in the Articles of Association.

If the amounts in the Reserves Fund fall below the minimum the Bank is obliged to fill the gap, so as to recover the minimum level over a period of two years. Under the provisions of the banking legislation, banks are not allowed to pay dividends before they make the required contributions. As at 31 December 2022, the Reserves Fund amounted to BGN 8,392 thousand (2021: BGN 8,392 thousand).

30. Cash and cash equivalents

	2022	2021
Cash at central banks other than the minimum statutory reserve (Note 11)	230,260	118,586
Due from banks (Note 12)	25,370	22,622
Total cash and cash equivalents	**255,630**	**141,208**

Deposits with foreign banks provided by the Group as collateral are not included cash and cash equivalents, as disclosed in Note 28.

The following tables summarise the changes in the liabilities from financing activity, including cash flows-related changes and non-cash changes, and contains a reconciliation of opening and closing balances of the liabilities originating from financing activity in the statement of financial position for the years ended 31 December 2022 and 2021.

Notes to the financial statements (tables in BGN'000)

	1 January 2022	Cash in-flows	Cash out-flows	Effect of changes in exchange rates	Accrued under the effective interest rate method	New lease contracts	Others	31 December 2022
Lease liabilities	9,422	–	(5,046)	(209)	9	6,961	–	11,137
Subordinated debt	19,829	40,528	(1,027)	–	1,231	–	–	60,561
Total liabilities from financing activity	**29,251**	**40,528**	**(6,073)**	**(209)**	**1,240**	**6,961**	**–**	**71,698**

	1 January 2021	Cash in-flows	Cash out-flows	Effect of changes in exchange rates	Accrued under the effective interest rate method	New lease contracts	Others	31 December 2021
Lease liabilities	7,546	–	(4,157)	(98)	4	6,127	–	9,422
Subordinated debt	–	19,958	–	–	(129)	–	–	19,829
Total liabilities from financing activity	**7,546**	**19,958**	**(4,157)**	**(98)**	**4**	**6,127**	**–**	**29,251**

31. Related party transactions

In the ordinary course of business the Group carries out bank transactions with related parties based on the principle of equality and parties' independence. These are carried out at contract prices. These include mostly loans and deposits, and also purchases of receivables in order to utilise the Group's free cash. As at 31 December 2022, the Group did not set aside provisions for overdue receivables relating to funds provided to related parties (2021: nil). Such evaluation is carried out annually, by conducting an analysis of the financial position and the market in which these related parties operate.

Parent company

As at 31 December 2022, the Group is controlled by TBI Financial Services B.V., registered in the Netherlands, which holds 100% of the ordinary dematerialised shares of the Bank.

The ultimate parent company is Tirona Limited, Cyprus. Companies that represent indirect owners of the bank's capital are 4Finance Holding S.A. (Luxembourg) and 4Finance Group S.A. (Luxembourg).

Other related parties

4finance Oy (Finland), AS 4Finance (Latvia), Credit Service UA, Sia Vivus, Sia Ondo, 4Finance Spain Financial Services SA, 4Finance S.A., 4Finance Next EOOD, 4Finance AB (Sweden), Aviatiq Support SRL, 4Spar AB, Ferrymill Limited and Zaplo SP ZOO (Poland), are other related parties to the Group as they are under the control of the ultimate parent.

Notes to the financial statements (tables in BGN'000)

The balances and deals with the related parties, as well as the related income and expenses, are as follows:

31 December 2022	Parent company	Other	Total
Debt securities	–	10,600	10,600
Loans granted	–	–	–
Other assets	–	487	487
Borrowings	33,244	46,413	79,657
Other liabilities	–	127	127
Purchase of receivables	–	69,511	69,511
Interest income	–	1,292	1,292
Fee and commission income	3	193	196
Other operating expenses	–	1,402	1,402
Dividends paid	19,556	–	19,556

31 December 2021	Parent company	Other	Total
Debt securities	–	12,148	12,148
Loans granted	–	4	4
Other assets	–	44	44
Borrowings	7,012	7,254	14,266
Other liabilities	–	1,366	1,366
Purchase of receivables	–	55,049	55,049
Interest income	–	1,306	1,306
Fee and commission income	29	107	136
Other operating income	–	–	–
Other operating expenses	–	822	822

Transactions with related parties were carried out in the ordinary course of the business of the Group.

The total remuneration paid to key management staff in 2022 amounts to BGN 2,982 thousand (2021: BGN 1,718 thousand). Key management staff consists of the members of the management and supervisory boards. As of 31 December 2022 there are no accrued but unpaid remunerations of directors and key management personnel (2021: BGN 2,934 thousand) and are short-term in its nature. Other benefits were not paid to management, including pension plans, share based payments, etc.

Notes to the financial statements (tables in BGN'000)

32. Segment information

General information

TBI Bank EAD group uses a matrix form of organisation, whereby management resonsibilities are divided across geographical areas and also across functions. The chief operating decision maker for the Group is the management board of TBI Bank EAD. The management board regularly reviews the operating results of both sets of components. However, the Group has decided to present its reportable segments by geographical area due to the following:

1. The management board reviews performance in the first place by country, and only after that, further details are provided on the different products and services in each country.
2. Financial information is readily available for the financial position and performance per country, but such information is not readily avaialble on the same level of detail per product, e.g. proft or loss.
3. The products in the different countries, such as cash loans in Bulgaria and cash loans in Romania, exhibit similar economic characteristics, including their nature, delivery process, type of customer, distribution channels, and regulatory environment, which allows for aggregation of the data related to these products.

Each reportable segment derives its revenues from interest income and fee and commission income from similar portfolios of loans granted to customers.

Information about profit, assets and liabilities

31 December 2022	Bulgaria	Romania	Greece	Total segments	Adjustments/ eliminations (*)	Total
Interest income	126,518	163,131	730	290,379	(18,298)	272,081
Interest expense	(9,107)	(16,512)	(3)	(25,622)	2,569	(23,053)
Fee and commission income	47,154	51,149	–	98,303	(19,172)	79,131
Fee and commission expense	(5,325)	(7,139)	(53)	(12,517)	–	(12,517)
Net trading losses	(13,490)	710	–	(12,780)	–	(12,780)
Other gains/(losses), net	60,126	33,479	–	93,605	(97,164)	(3,559)
Credit loss expense on financial assets	(36,225)	(26,080)	(1,696)	(64,001)	1,847	(62,154)
Impairment losses on other assets	(4,450)	(309)	–	(4,759)	4,450	(309)
Staff costs	(44,020)	(42,880)	(2,593)	(89,493)	–	(89,493)
Depreciation and amortisation	(4,748)	(2,942)	(481)	(8,171)	–	(8,171)
Other operating expenses	(87,655)	(15,586)	(6,412)	(109,653)	53,670	(55,983)
Profit before tax	28,778	137,021	(10,508)	155,291	(72,098)	83,193
Income tax expense	(6,494)	(7,487)	2,047	(11,934)	–	(11,934)
Profit for the year	22,284	129,534	(8,461)	143,357	(72,098)	71,259
Intangible assets	19,273	4,098	4,051	27,422	–	27,422
Property, plant and equipment	14,009	13,614	780	28,403	–	28,403
Total assets	1,197,267	1,124,311	26,963	2,348,541	(253,388)	2,095,153
Deposits from clients	1,000,638	556,885	–	1,557,523	–	1,557,523
Total liabilities	1,144,542	796,117	35,424	1,976,083	(238,604)	1,737,479

(*) *This column includes only eliminations of intergroup transactions between TBI Bank EAD in Bulgaria and its branch and subsidiaries in Romania, as well as adjustments on the consolidation of the subisidiaries in Romania as per the requirements of IFRS 10.*

Notes to the financial statements (tables in BGN'000)

31 December 2021	Bulgaria	Romania	Greece	Total segments	Adjustments/ eliminations (*)	Total
Interest income	179,425	44,322	–	223,747	(5,898)	217,849
Interest expense	(6,162)	(8,689)	–	(14,851)	1,385	(13,466)
Fee and commission income	31,297	26,601	–	57,898	–	57,898
Fee and commission expense	(4,964)	(14,162)	–	(19,126)	–	(19,126)
Net trading losses	(2,225)	129	–	(2,096)	–	(2,096)
Other gains/(losses), net	5,695	56,755	–	62,450	(64,156)	(1,706)
Credit loss expense on financial assets	(36,840)	(16,080)	–	(52,920)	1,587	(51,333)
Impairment losses on other assets	–	(214)	–	(214)	–	(214)
Staff costs	(41,095)	(32,445)	–	(73,540)	–	(73,540)
Depreciation and amortisation	(4,242)	(2,842)	–	(7,084)	–	(7,084)
Other operating expenses	(86,601)	(11,946)	–	(98,547)	59,039	(39,508)
Profit before tax	34,288	41,429	–	75,717	(8,043)	67,674
Income tax expense	(4,967)	(8,937)	–	(13,904)	–	(13,904)
Profit for the year	29,321	32,492	–	61,813	(8,043)	53,770
Intangible assets	13,720	2,952	–	16,672	–	16,672
Property, plant and equipment	11,552	12,022	–	23,574	–	23,574
Total assets	1,090,586	397,755	–	1,488,341	(100,591)	1,387,750
Deposits from clients	659,269	296,445	–	955,714	–	955,714
Total liabilities	831,049	352,378	–	1,183,427	(112,848)	1,070,579

(*) *This column includes only eliminations of intergroup transactions between TBI Bank EAD in Bulgaria and its branch and subsidiaries in Romania, as well as adjustments on the consolidation of the subisidiaries in Romania as per the requirements of IFRS 10.*

Measurement

The profit, assets and liabilities of each segment are measured using the principles of IFRS, with the exceptions of the following:

- Portfolios carried in Bulgaria but purchased by the Bank in Bulgaria from subsidiaries in Romania, are presented in the Romania segment;
- Interest income related to the above portfolios is presented in the Romania segment;
- Impairment loss related to the above portfolios is presented in the Romania segment.

Any transactions between reportable segments are accounted for using the principle of arm's length.

Notes to the financial statements (tables in BGN'000)

33. Disclosure under Art. 70 of the Credit Institutions Law

Data as at 31 December 2022, before consolidation eliminations.

Name	Description of the activity	Registered address	Turnover amount	Number of employees	Pre-tax profit	Tax accrued	Profitability on assets
TBI Bank EAD, Bulgaria	Corporate and consumer (retail) lending, public attraction of deposits and other refundable funds, activities of an investment intermediary, payment services, trading in foreign currency and precious metals on own account or on customer's account, guarantee transactions, and any other activities determined by an ordinance of Bulgarian National Bank	Sofia	312,241	1,048	122,230	6,395	8%
Vivus.bg EOOD, Bulgaria	Consumer lending	Sofia	10,149	58	3,256	328	39%
TBI Buy EAD	Software development and electronic trading and services platform maintenance, incl. commercial mediation.	Sofia	24	14	(3,113)	–	(470%)
TBI Bank EAD – Romania Branch	Corporate and consumer (retail) lending, public attraction of deposits and other refundable funds, payment services, trading in foreign currency and precious metals on own account or on customer's account, guarantee transactions, and any other similar activities, determined by an ordinance of Romanian National Bank	Bucharest	95,979	649	21,726	2,599	2%
TBI Money IFN S.A., Romania	Consumer lending	Bucharest	57,223	38	22,561	4,824	26%
TBI Asset Management, Romania (TBI Leasing S.A., Romania)	Provision of assets under finance lease agreements	Bucharest	1,378	–	744	64	15%
TBI Bank EAD – Grecce Branch	Consumer lending	Athens	730	56	(10,488)	(2,047)	(31%)

Notes to the financial statements (tables in BGN'000)

Data as at 31 December 2021, before consolidation eliminations.

Name	Description of the activity	Registered address	Turnover amount	Number of employees	Pre-tax profit	Tax accrued	Profitability on assets
TBI Bank EAD, Bulgaria	Corporate and consumer (retail) lending, public attraction of deposits and other refundable funds, activities of an investment intermediary, payment services, trading in foreign currency and precious metals on own account or on customer's account, guarantee transactions, and any other activities determined by an ordinance of Bulgarian National Bank	Sofia	210,096	1,002	33,297	4,533	3%
Vivus.bg EOOD, Bulgaria	Consumer lending	Sofia	10,380	56	4,309	434	43%
Ti Buy EAD	Software development and electronic trading and services platform maintenance, incl. commercial mediation.	Sofia	–	44	(854)	–	(46%)
TBI Bank EAD – Romania Branch	Corporate and consumer (retail) lending, public attraction of deposits and other refundable funds, payment services, trading in foreign currency and precious metals on own account or on customer's account, guarantee transactions, and any other similar activities, determined by an ordinance of Romanian National Bank	Bucharest	23,217	171	(155)	–	0%
TBI Money IFN S.A., Romania	Consumer lending	Bucharest	107,151	774	39,434	7,664	31%
TBI Leasing S.A., Romania	Provision of assets under finance lease agreements	Bucharest	1,510	28	1,263	224	29%

34. Events after the balance sheet date

In July 2023 the Bank issued public bonds in the amount of EUR 10 million which mature in 2026, and are structured to meet the requirements for the recognition of acceptable liabilities (MREL).

No other material events have occurred after the balance sheet date, which may require adjustments or disclosures in the financial statements as at 31 December 2022.