

TEXIM BANK AD

ANNUAL SEPARATE MANAGEMENT REPORT,
INDEPENDENT AUDITORS' REPORT
SEPARATE FINANCIAL STATEMENTS

31 December 2019



ANNUAL MANAGEMENT REPORT

„TEXIM BANK“ AD

2019

Sofia

March 2020

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This annual Management Report has been prepared on the grounds and in compliance with the requirements of the Accountancy Act, the Public Offering of Securities Act, Ordinance 2 of the Financial Supervision Commission (FSC) on the prospectuses for public offering and admission to trading on a regulated securities market and disclosure of information, Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and the National Corporate Governance Code.

I. ORGANIZATION OF THE OPERATIONS OF „TEXIM BANK“ AD

“Texim Bank” AD is the oldest private bank in the Republic of Bulgaria. The Bank is a joint-stock company registered in the Republic of Bulgaria in 1992 (by decision of Sofia City Court dated 14 September 1992, company case No. 24103/1992) licensed by the Bulgarian National Bank under license B-27 and by the decision of the Governing Council of BNB No. 248 dated 11.04.1997 for conducting bank transactions in the country and abroad, updated with orders of the Governor of the BNB No. 100-0570 from 23.12.1999; No. RD 22-0852 from 07.05.2007; RD 22-2268 from 16.11.2009. The Bank is registered with the Register of the Financial Supervision Commission under Reg. No. 03-161 dated 18.02.1998. By Order of the BNB Governor No RD22 - 1351 / 06.07.2012 the name of the Bank is changed to "Texim Bank" AD. By Order of the BNB Deputy Governor - 121456 / 21.07.2017, the issuance of electronic money is added to the Bank's principal activities. The Bank holds a universal license for conducting all types of banking transactions in the country and abroad and is entered in the register of FSC under Reg. No. 03-161. "Texim Bank" AD is a licensed investment intermediary under Permit No 277 / 01.10.1993 and No 248 / 11.04.1997 of the BNB. The Bank shall perform all services that may be provided by an investment intermediary referred to in Art. 5, para. 2 and 3 of the Markets in Financial Instruments Act (repealed) in accordance with Art. 6, para. 2 and 3 of the new Markets in Financial Instruments Act and holds an investment intermediary license as required by the Markets in Financial Instruments Act.

“Texim Bank” AD is a public company registered with the Commercial Register at the Registry Agency by a Decision dated 16.01.2013 and with the Register of Public Companies and Other Issuers, lead by the FSC by decision No. 81-PD dated 31.01.2013 within the meaning of Article 30(1)(3) of the Financial Supervision Commission Act (FSCA). By Protocol No. 8 dated 11 February 2013 of the Board of Directors of “BSE“ AD, „Texim Bank“ AD was admitted to trading shares on the BSE Main Market, “Standard” share segment. The Bank's consolidated balance sheet includes "Texim Proekti" EOOD and "Texim Asset Management" EAD, which in turn manages the activities of four mutual funds: MF "Texim Bulgaria"; MF "Texim Conservative Fund"; MF "Texim Balkans" and MF "Texim Commodity Strategy". The subsidiary of the Bank - "Texim Proekti" EOOD as at 31.12.2019 provides external services and has a financial result of BGN 8 thousand after taxes.

„Texim Bank“ AD is a member of “BSE” AD, “Central Depository” AD, Banking Organization for Payments Initiated by Cards (BORIKA), The Bulgarian Association for Card Payment Security (BACPS); National Card Scheme, European Payments Council - SEPA Credit Transfer Scheme, "BANKSERVICE" AD, RINGS, a member of Visa Europe and MasterCard International, SWIFT, a direct participant in TARGET 2 through the TARGET 2 - BNB component. In August 2012 the Bank joined BISERA 7 - EUR payment system. „Texim Bank“ AD is a member of the Association of Banks in Bulgaria. The Bank is an agent of EasyPay, a registering body of "Infonotary" since 2011.

As of December 31, 2019 the Bank operates through Central Management and in 34 offices in 22 settlements. During the year 3 new offices were opened: in Varna - 2 and in Plovdiv - 1. As of 31 December 2019, the number of staff of the Bank is 302, compared to 306 in 2018. The registered office of „Texim Bank“ AD is 117, Todor Aleksandrov Blvd., Sofia.

II. FINANCIAL OVERVIEW OF THE ACTIVITY OF “TEXIM BANK” AD

	2019	2018	2017
Financial indicators (BGN'000)			
Net interest income	9 501	7 734	6 316
Fee and commission income, net	3 709	3 106	2 331
Net gains on financial assets at fair value	2 487	2 897	2 645
Total net operating income	15 550	14 156	11 566
Administrative expenses	(12 224)	(12 988)	(11 959)
Amortization cost	(3 499)	(1 164)	(1 233)
Net expenses from impairment and uncollectability	489	281	(751)
Profit for the year	298	159	120
Balance indicators (BGN'000)			
Total assets	363 236	301 649	220 005
Credits and receivables, net	169 329	144 894	101 027
Financial assets at fair value	61 729	58 506	38 340
Deposits and loans from credit institutions	1 622	24 562	9 505
Deposits from customers other than credit institutions and lease liabilities	320 951	238 636	171 674
Total equity	38 184	36 343	35 629
Basic ratios (%)			
Overall capital adequacy	15.55%	16.60%	18.74%
Tier I capital ratio	15.55%	16.60%	17.42%
Tier I basic capital ratio	15.55%	16.60%	17.42%
Non-performing loans (NPL, %)	4.13%	3.73%	4.95%
Leverage ratio	10.43%	12.07%	14.42%
Liquidity coverage ratio (LCR)	433.45%	229.19%	126.98%
Net stable financing ratio (NSFR)	119.29%	118.23%	115.61%
Net loans and receivables / deposits from customers other than credit institutions	52.76%	60.72%	58.85%
Resources			
Branches and offices	34	31	29
Personnel	302	306	315

2.1. KEY FINANCIAL INDICATORS

In 2019, banking sector activity was favourably impacted by faster GDP growth, a stable fiscal position, continued credit growth, declining levels of non-performing loans, and a continued growth in deposits. During the year the Bank updated its internal regulatory framework in accordance with the adopted legislative initiatives in the field of banking in order to prepare for the implementation of the requirements of the uniform European regulatory rules by transposing them into normative acts of our national legislation. Priority was given to analysing regulations and directives related to capital and prudential requirements - the so-called CRR2/ CRD5 bank package, including Regulation (EU) 2019/876 (CRR2) and Directive (EU) 2019/878 (CRD5), as well as regarding recovery and restructuring requirements - the so-called BRRD2/ SRMR2 banking package including Directive (EU) 2019/879 (BRRD2) and Regulation (EU) 2019/877 (SRMR2).

The analysis and management of the various types of risk have taken into account the guidelines of the European Banking Authority (EBA), and in particular those related to institution stress testing, as well as the procedures and methodology for the supervisory review and assessment process and the supervisory stress tests, the management of interest rate risk arising from activities outside the trading portfolio, management of non-performing and restructured exposures, etc.

In 2019 "Texim Bank" AD increased its market position and improved its core financial indicators. During the year the Bank conducted its activities in accordance with the set goals and specific market conditions.

As at 31 December 2019, the financial result of "Texim Bank" AD is a net profit of BGN 298 thousand.

As at 31.12.2019 the main indicators for the Bank's activity are as follows:

- Compared to the previous year, total assets of the Bank increased by 20.42%.
- The carrying amount of the assets is BGN 363 236 thousand and has increased by BGN 61 587 thousand compared to the same period of the previous year
- Liabilities and equity - BGN 363 236 thousand, of which total equity - BGN 38 184 thousand; total liabilities - BGN 325 052 thousand, representing deposits and loans from credit institutions - BGN 1 622 thousand and deposits from customers other than credit institutions - BGN 320 951 thousand (including liabilities under lease contracts in the amount of BGN 3,305 thousand). The total liabilities of the Bank as at 31.12.2019 increased by 22.52% compared to the amount of liabilities as at 31.12.2018. The growth for the year is BGN 59 746 thousand.

The total amount of the regulatory equity of „Texim Bank“ AD as at 31 December 2019 is BGN 34 931 thousand, whereby 100% of it is common equity Tier 1 capital. The capital adequacy ratios exceed significantly the required regulatory minimum ratios and their values as at 31 December 2019 are as follows:

- Common equity Tier 1 capital Ratio - 15.55%, whereas the regulatory ratio is 4.5%;
- Tier 1 capital ratio - 15.55%, whereas the regulatory ratio is 6%;
- Total capital adequacy ratio - 15.55%, whereas the regulatory ratio is 8%.

The total amount of the regulatory capital requirements as at 31 December 2019 is BGN 17 969 thousand and their structure by type of risk is as follows:

- Capital requirements for credit risk - BGN 13 600 thousand;
- Capital requirements for market risk - BGN 2 840 thousand;
- Capital requirements for operational risk - BGN 1 529 thousand.

In accordance with the requirements on capital buffers, the Bank maintains a capital buffer of 2.5% of its total risk exposure, a systemic risk buffer of 3% of risk-weighted exposures, and a countercyclical buffer of 0.5% of risk-weighted exposures. As of 31 December 2019, their amounts are, respectively, BGN 5 615 thousand, BGN 6 535 thousand and BGN 1 007 thousand.

The total regulatory capital of "Texim Bank" AD as of 31 December 2019 is BGN 34 931 thousand and consists entirely of common equity Tier 1 capital.

Equity structure and elements as at 31.12.2019:

	BGN
Registered and paid-in capital	27 995
Accumulated other comprehensive income	7 147
Other reserves	2 282
Intangible assets	(2 218)
Deferred tax assets	(213)
Requirements for prudential assessment	(62)
Common equity Tier 1 capital	34 931

The common equity Tier 1 capital surplus reported by the Bank as at 31.12.2019 amounts to BGN 24 824 thousand and covers fully the existing regulatory requirements for capital buffers.

In 2019, the private financial strength rating of "Texim Bank" AD, awarded by BCRA, was updated. It is not published on the BCRA website. The results of the last two awarded private ratings (2018, 2019) are as follows:

FINANCIAL STRENGTH RATING /PRIVATE/	Rating – 2018	Rating – 2019
Long-term rating:	B	B+
Outlook:	stable	stable
Short-term rating:	B	B
Long-term national scale rating:	B+ (BG)	BB- (BG)
Outlook:	stable	stable
Short-term national scale rating:	B (BG)	B (BG)

The 2019 rating update shows the following positive trends:

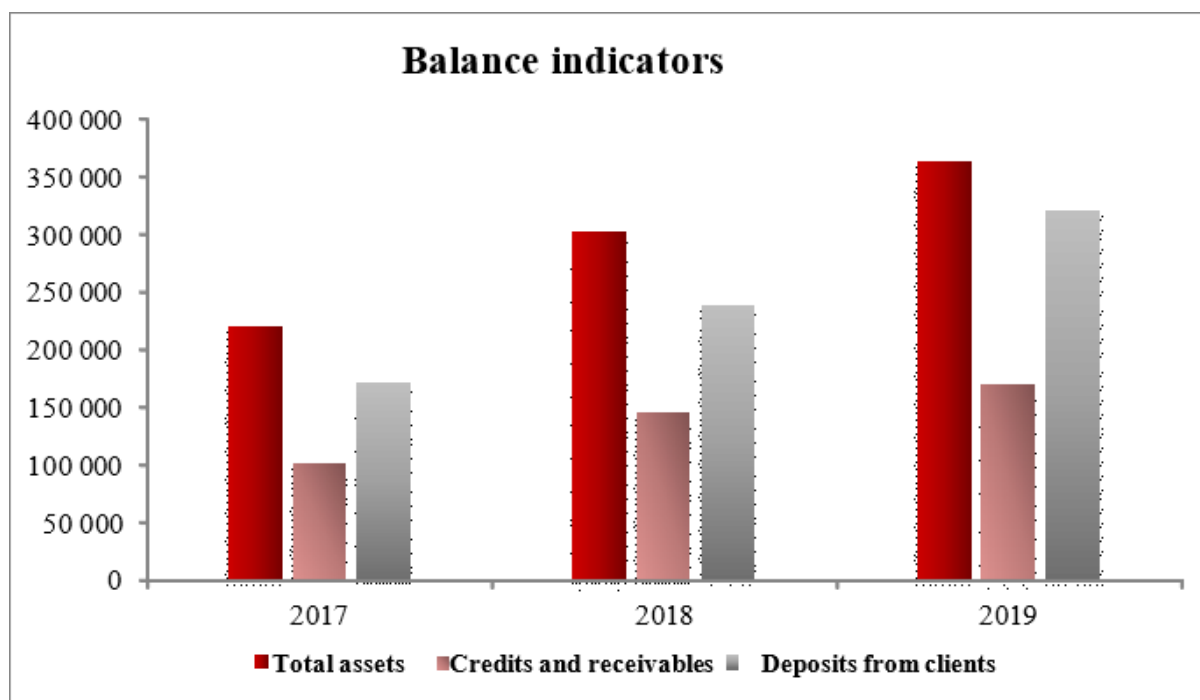
- The Bank's long-term rating was upgraded from B to B + with a "stable" outlook.
- The long-term rating on the national scale is raised from B + to BB.
- Outlook "stable".

"Texim Bank" AD maintains a relatively low amount and relative share of impaired/overdue loans throughout the five-year period considered. For the last four years, the share of gross non-performing loans as part total gross loans is below 5%, with decreasing average values for the system (from 20% to 11%).

On a comparative basis, the values reported by the Bank for the Gross Interest Rate Spread and Net Interest Rate Indicators are significantly higher than the average for Group II banks and the banking system, and any exceeding amounts are monitored for compliance.

2.2. FINANCIAL REVIEW OF THE OPERATIONS

2.2.1. Asset structure



- Cash in hand and in current accounts with the BNB amounted to BGN 56 537 thousand and formed 15.56% of the balance sheet, compared to 14.53% for the previous year; The resources provided to banks amount to BGN 21 149 thousand; loans and advances to customers other than credit institutions - BGN 148 180 thousand; receivables for redemption of securities - BGN 27 464 thousand; financial assets at fair value through other comprehensive income - BGN 36 227 thousand, financial assets at fair value through profit or loss - 25 502; property, plant and equipment amount to BGN 19 945 thousand, intangible assets - BGN 2 218 thousand; investment property - BGN 13 752 thousand; investments in subsidiaries - BGN 451 thousand; tax and other assets - BGN 6 287 thousand.

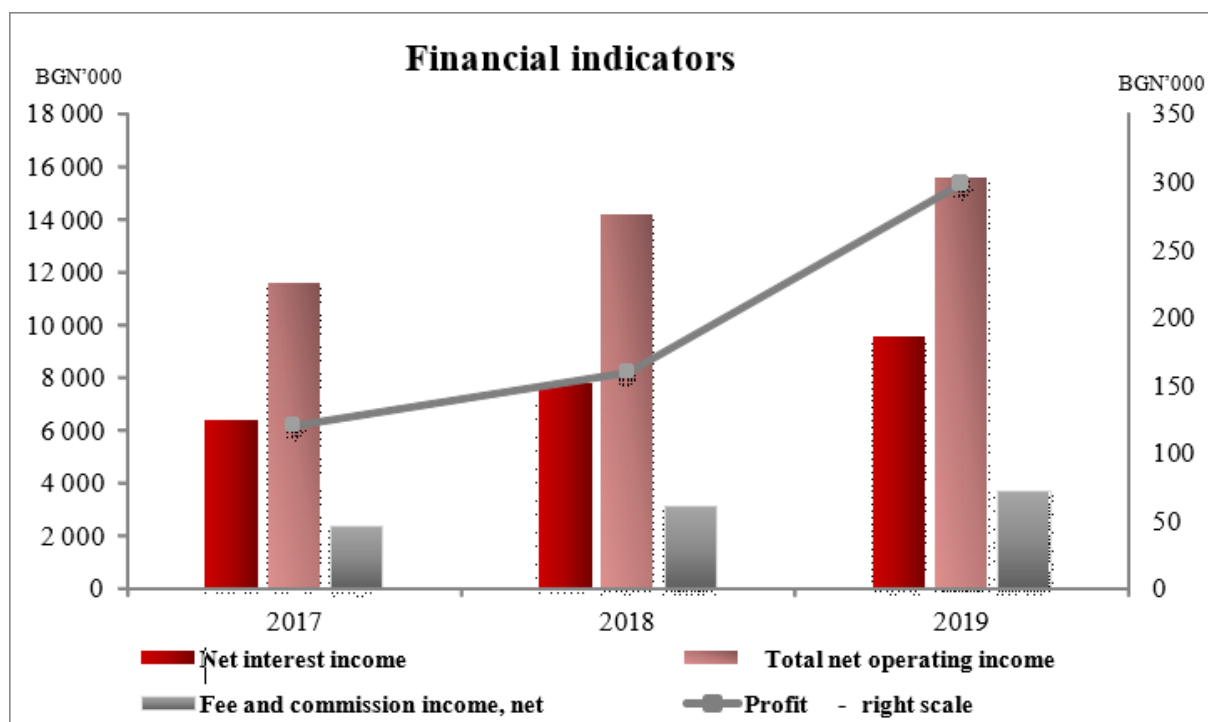
- Funds with correspondent banks and deposits with credit institutions make up 5.82% of the balance sheet total, up from 5.36% in 2018. Investments in financial assets in the form of shares, government securities and corporate bonds are increasing as their relative weight share in the Bank's assets as at 31.12.2019 is 18.51%. Investing in debt instruments is a means of improving the Bank's profitability.

2.2.2. Liabilities structure

The structure of attracted funds was optimized to a great extent during the year in order to increase profitability. Measures have been taken to diversify the resource involved in terms of sources and timing of the resource. The relative share of deposits from customers other than credit institutions, incl. liabilities under lease contracts increased by 34.49% compared to 2018, amounting to BGN 320 951 thousand, incl. 157 392 thousand BGN deposits of citizens and households - residents and non-residents.

The Bank's equity at the end of 2019 amounts to BGN 38 184 thousand.

2.2.3. Revenue and expenses analysis



The Bank's revenue and expenses in 2019 reflect both the economic situation in the country and its new policy towards restructuring its assets and liabilities. The total net operating income amounted to BGN 15 550 thousand, compared to BGN 14 156 thousand in 2018, which is an increase of 9.85%. The ratio of these revenues to assets is 4.28%, compared to 4.69% as at 31.12.2018.

- Net interest income in 2019 increased by 22.85% compared to 2018, reaching BGN 9 501 thousand, compared to BGN 7 734 thousand in the previous year. Net interest income is a major source of income for the Bank and represents 61.10% of net operating income. In the structure of interest income, the share of interest income from loans and receivables, incl. on securities repurchase agreements (repo deals) decreases from 88.43% in 2018 to 84.70% in 2019. Interest income on debt instruments is up by 74.09%.

- During the year the Bank increased in absolute terms the interest expenses by BGN 713 thousand or by 92.48%, while at the same time increasing the attracted resource from clients other than credit institutions by 34.49%. A significant part of the increase in interest rates is due to the introduction of IFRS 16 from the beginning of 2019, which resulted in interest expenses on operating leases of BGN 289 thousand. (40.53% of the 2019 interest increase).

- Net fee and commission income increased by 19.41% during the year. The collected fees and commissions for customer transfers, bank card payments and account servicing increased by 30.22%.

- Net income from operations with financial assets, incl. from foreign trade decreased by 14.15% compared to 2018, with their share in the structure of net operating income as at 31.12.2019 being 15.99% and decreasing by 4.47 percentage points compared to the previous year.

- During the reporting period general and administrative expenses amounted to BGN 12 224 thousand, which is a decrease of 5.88% compared to the previous year. The largest share in the structure of general and administrative expenses - 57.44% is made up of employee expenses, followed by cost of materials, rent, consulting and other external services

- 39.56%. Employee expenses reach BGN 7 021 thousand, compared to BGN 6 188 thousand in 2018, which is an increase of 13.46%. The same is largely due to the increase in the number of employees of the Bank, incl. and new employees in the newly opened offices.

- The net result of impairments for uncollectability in 2019 is income from reintegrated impairments for credit losses in the amount of BGN 489 thousand, with this value being formed by income from reintegrated impairments of financial assets at fair value through other comprehensive income in the amount of BGN 35 thousand and income from reintegrated impairments of financial assets at amortized cost amounting to BGN 454 thousand.

2.3. BUSINESS DEVELOPMENT

In 2019, the Bank focuses on the constant development of innovative products, the introduction of promotional campaigns for all product categories in the face of increased competition, offering some of its customers preferential services, and achieving effective communication with a large part of its customer base. Strategically, "Texim Bank" AD will continue to work on improving the quality of services, introducing innovative products, seeking new business opportunities and packaging services in order to upgrade and provide comprehensive customer service.

Operating segments

In compliance with paragraph 2 /a/ /i/ of IFRS 8 and according to the need to disclose operating segments, the Bank has distinguished its operations in the following business lines: corporate and institutional banking, investment banking, private banking, retail banking and asset and liability management. The operating results of these activities are regularly reviewed and analyzed by the Management.

All products and services by business activities:

Retail banking - attracting funds and lending to individuals through various channels of sales and customer service; payment services;

Corporate and Institutional Banking - Attracting funds and lending to legal entities - commercial companies and budget enterprises;

Money Markets and Liquidity: Securities Transactions, Repurchase Arrangements for Securities; interbank market transactions; currency trading; currency and other financial instruments for customer service and others.

Administrative expenses are monitored generally and by type, analysing business segments using objective criteria.

Credit investments

As at 31.12.2019 the total amount of credit exposures to clients other than banks /excluding repo deals/ before provisioning amounted to BGN 150 809 thousand. The growth of corporate loans amounted to 7.95% - from BGN 96 881 thousand to BGN 104 603 thousand. The growth of the retail portfolio is 32.5% - from BGN 34 884 thousand to BGN 46 206 thousand.

The credit portfolio by groups of borrowers is respectively: 67.4% for legal entities and 32.6% for individuals and households. Of the total credit portfolio, 81.66% are loans denominated in BGN and 18.34% are loans denominated in foreign currency.

The distribution of credit liabilities of legal entities by risk groups is: regular - 96.53%, under observation - 1.96%, and non-performing - 1.51%.

Off-balance sheet commitments under bank guarantees issued in BGN amount to BGN 6 097 thousand as at 31.12.2019.

The unsettled commitments on contracted corporate loans and overdrafts as at 31.12.2019 amount to BGN 5 855, compared to BGN 3 456 thousand at the end of 2018.

2.3.1. Corporate banking

In 2019, the Bank adapted its credit policy to the economic circumstances and adopted a strictly conservative approach. The loans to economic sectors at increased risk were limited during the year. The credit risk was managed through ongoing monitoring, restructuring, renegotiation and additional loan securing. Serious work has been done to restructure and improve the collection of non-performing exposures. The credit portfolio continued to diversify into industries related to the business of small and medium-sized enterprises and in the dynamically developing sectors of the economy. During the reporting period, the Bank's staff performed serious preparations for reorientation of the activity and development of consumer lending, and in the current year the centralized administration also covered loans granted to both legal entities and natural persons. Active work was done towards forming a corporate and consumer portfolio through new credit products.

In the area of corporate banking, the focus of the operations was to increase the amount of credit exposures while preserving and stabilizing their quality. In this respect, there is a positive dynamics in the process of granting new loans. The Bank increased its lending activity by expanding the lending segment of small and medium-sized enterprises, as well as the share of working loans, revolving credit lines and overdrafts. Effective and focused work on non-performing loans was carried out, accompanied by a maximum conservative policy related to the impairment.

2.3.2. Retail banking

In 2019, the team of "Texim Bank" AD consolidated and expanded its position in the segment of retail lending by actively promoting new credit products. The Bank is the first on the Bulgarian market to realize and offer its customers immediate credit and debit card issuance directly at the banking offices within 15 minutes. In addition to convenience and speed, the new solution is extremely useful for clients who want to have their funds immediately, and can use their approved consumer credit or overdraft amounts in a matter of minutes. "Texim Bank" AD continues to develop and upgrade the functions of its alternative banking channels - mobile and internet banking, so that customers can use them as easily as possible and enjoy preferential prices when choosing these platforms.

Offering competitive products and services has resulted in a synergistic effect. The Bank offers loans to households where the review and approval time is reduced from 15 minutes to 2 hours, depending on the type of product. Modern and competitive commodity lending products have been introduced. Special offers and credit packages have been developed for companies and their employees, which stimulate sales and provide complete banking services for legal entities and their employees. Sales campaigns have been carried out,

covering various target customer groups, aimed at increasing the used products and services and achieving structured communication leading to long-term customer relationships.

The growth of the credit retail portfolio amounts to 33% - from BGN 34 994 thousand as at 31.12.2018, to BGN 46 389 thousand as at 31.12.2019.

As a whole, in 2019 the credit portfolio maintained its growth rate, but the allocation of sales is directed to distribution channels that are priority to the Bank and are in line with the overall positioning and targeting strategy.

2.3.3. Card payments

In 2019 "Texim Bank" AD continued to follow the line of recognition as an innovative and high-tech bank on the Bulgarian market.

One of the important events for the Bank in this regard was the successful completion of the functional tests of its Authorization Center (Host) in 2019. The results show that an own authorization system will be officially launched as early as January 2020. By the end of 2019, this system will work in parallel with the Bank's existing file exchange systems with the national card operator "Borika" AD, as all employee debit cards, as well as some of the Bank's customers' debit cards, that have already been migrated to it. It is expected that by the end of June 2020, all debit cards will be included in the new system, which will significantly increase the number of transactions that can be performed with bank cards (blocking, unblocking, changing transaction limits and unblocking 3 wrong PINs, etc.) without the client having to visit the Bank's office. This, in turn, will contribute to enhancing the competitiveness of the products offered and consolidating the high-tech image that the Bank strives for. It is envisaged that by the end of 2020, credit cards will also be included in the Bank's new authorization system.

Equally important is the continued active participation of the Bank in one of the largest projects of "Borika" AD, called "New Generation". In practice, this is a process of migration of the national card operator to a new generation authorization system - Open way. The project covers all elements of the card business and its implementation will enable the banks, members of "Borika" AD, such as "Texim Bank" AD, to offer a high level of flexibility in the provision of new services, real-time fraud prevention and guaranteed continuity of services.

For another consecutive year, the activity related to increasing the number of debit and credit cards issued continued. As a result of the efforts and the introduction of instant issuance, which enables the customer to receive his personalized bank card immediately after its application at a bank office, the total number of issued personal debit cards increased by just over 31% at the end of 2019. In comparison, this growth in 2018 was only 11%.

With respect to credit cards, in 2019 the Bank continued to maintain a diversified product portfolio. The growth of the loan portfolio compared to the beginning of the year is 27.3%, with credit cards at the end of 2019 accounting for 17% of the total number of issued bank cards. This fact is largely due to the validation of the developed credit products and their constant adaptation to customer needs.

As at 31.12.2019, the credit limits granted under Visa and Mastercard international credit cards form a credit portfolio for the Bank amounting to BGN 6.27 million with a balance sheet debt at the end of the year amounting to BGN 1.69 million, or about 27% of the credit line provided on cards.

Development and growth of card services and products

In 2019, "Texim Bank" AD continued the development of card business activities in the two main directions, namely: the issuance of bank cards and the development of a terminal network for accepting payments and withdrawing cash.

A new credit product was launched in 2019:

Mastercard TEMRO Credit Card, which offers highly competitive conditions:

- No annual fee;
- Interest rate of 19.95%;
- Immediate issue.

The product is well received by the clients of the Bank and in the first year of its launch on the market Master Card TEMRO cards form 9% of the total number of credit cards issued during the year.

It is forecasted that by 2020 the portfolio of credit and debit cards will increase significantly. In this connection, efforts will be directed to offering different types of promotions and new products.

With regard to debit cards, the Bank's ambition is to reach 12,500 active cards by the end of 2020, which will bring an estimated annual fee income of BGN 135 thousand.

In 2020, the Bank's promotions will focus not only on increasing the total number of cards, but also on increasing the number and volume of transactions, as well as the balance sheet debt on credit cards. In this respect, in 2020 the expected new amount of the credit limits on credit cards is expected to reach BGN 1,3 million, with the total credit portfolio on the cards rising to BGN 7,8 million, with a total balance sheet debt at the end of the year to the amount of BGN 1,9 million. The estimated interest income for 2020 for credit cards is BGN 195 thousand and the revenue from fees is BGN 107 thousand.

In 2020, "Texim Bank" AD begins work on a project for the implementation and implementation of the VAU (Visa Account Updater) service, which enables the card information to be automatically updated when using Visa card payment services, when it is renewed or reissued.

In 2019, the expansion of the POS network of terminals continued its development, and over the past 12 months more than 30 new merchants were attracted, one of which has 10 retail outlets located in different cities in the country. The total number of physical POS terminals is expected to double in 2020. In 2019, revenues from fees and commissions from merchants of the Bank using physical and virtual POS terminals reached BGN 1.6 million.

With the growth and opening of new office locations of the Bank in 2019, the development of the ATM terminal network continued. By the end of last year, their number increased by 5 new terminals and reached 37.

In 2020, "Texim Bank" AD will continue to maintain its image of a high-tech bank, providing that all newly opened offices will be equipped with printers intended for Instant Card Issuance at the Bank's office.

In parallel, work will also put towards increasing the POS and ATM terminal network. The main objective will be to attract new traders who realize high turnover through the installed POS terminals at their sites. Fees and commissions from the Bank's merchants with physical and virtual POS terminals are projected to exceed BGN 1.8 million in 2020.

With the growth of the Bank's branch network in 2020, the development of the ATM terminal network will continue, and we expect their total number to reach 43.

2.3.4. Private banking, investment intermediation

A major challenge, both in 2019 and in 2020, in the banking sector with significant clients remains striking a balance between the ever-increasing regulatory requirements of national and European legislation that have a direct impact on customer relations and customer service and, on the other hand, the ever-increasing customer demands for quality, security and speed in service.

In these complex and dynamic conditions, "Private banking" at "Texim Bank" AD continues to develop and implement its strategy for complex banking and financial services for first-class clients - individuals, corporate and institutional clients. The strategy includes the provision of a variety of products and services, both in the ordinary course of banking, but also in connection with investment and financial intermediation such as asset storage, trust and custodial services, sale of financial instruments and assets and more. Private Banking customers as of the end of 2019 are 1 130 individuals and legal entities with a total volume of attracted resources of approximately BGN 120 million.

The main objectives of "Private banking" in 2020 are to increase the customer base and establish stable and effective relationships with our customers, to expand products and services in the field of private and investment banking, including providing more opportunities for business clients and their employees and partners. The main goal is to achieve high quality and security of service, efficiency and speed of operations, comfort and convenience in banking, including through the use of new technological solutions and possibilities.

The fulfilment of the goals and objectives set for "Private banking" will further promote the Bank's activities and contribute to the increase of the financial result.

2.3.5. Treasury operations and liquidity

For another consecutive year, the conservative and well-balanced investment policy of "Texim Bank" AD achieved good results. During the past 2019 "Texim Bank" AD traditionally participated in the domestic and foreign markets, both on behalf and at the expense of its clients, as well as on its own behalf and on its own expense. At the same time, the Bank maintained optimal liquidity while strictly complying with regulatory requirements.

Interest income from corporate and government securities in the Bank's portfolio in 2019 amounted to BGN 1 634 thousand. Dividends received from investments in equity instruments amounted to BGN 742 thousand and interest received from repurchase agreements amounted to BGN 1 725 thousand.

The gain from foreign exchange trading amounted to BGN 381 thousand and that from transactions with financial instruments held for trading at the end of 2019 amounted to BGN 1 357 thousand or a total of BGN 1 738 thousand. The gain on transactions in financial assets reported through other comprehensive income for the year amounted to BGN 369 thousand.

The active and balanced management of the interest rate spread between the assets and the liabilities, in turn, has greatly contributed to increasing the profitability of investments and loans. The attracted funds continued their growth, which is a direct consequence of the Bank's conducted and proven in the recent years balanced and competitive interest rate policy, but at the same time it is a direct indicator of the image and high confidence of the Bank's clients.

2.3.6. Payment products and services

„Texim Bank“ AD carries out all types of payments in foreign currency worldwide through its well-developed system of correspondent relations. The Bank strives to expand its market positions by offering high-quality banking services at competitive prices.

In 2019, the Bank maintains 19 nostro accounts in 11 convertible currencies with top-class European banks, allowing it to service its operations and offer a wide range of foreign currency banking products to its customers. At present, “Texim Bank” AD maintains correspondence with more than 100 local and foreign banks. Part of them have agreed preferential terms, including in the area of international payments and related fees and commissions, speed and flexibility of service.

The Bank's correspondent network is continuously optimized, with the main goal being to make payments as quickly as possible, seamlessly and under the best financial conditions.

2.3.7. Information technology

In 2019, in IT development, major projects were focused on the introduction of innovative banking services, the development and improvement of remote banking services, and the modernization of hardware infrastructure.

A new “instant” bank card issuance service has been launched, allowing customers to receive their bank debit or credit card immediately and have the funds in it. In this regard, a new card authorization system was introduced and all of the Bank's offices were equipped with printers for bank card personalization.

The bank also created a new co-branded product - a credit card with a large chain of stores, organizing and setting up remote banking centres where customers can receive merchandise or credit card within minutes.

A project has been launched for the overall modernization of the IT infrastructure, which includes the introduction of new equipment to support network security, as well as to meet the requirements for higher productivity of the bank's systems. The project is divided into phases and continues into 2020.

In 2019, several new versions of the mobile and Internet banking system were introduced at the Bank, which were enriched with new functionalities in the areas of card payments and customer satisfaction. The developments set out the requirements of European Regulation 2018/389 and Directive (EU) 2015/2366 related to payment transactions and electronic remote services.

III. IMPORTANT EVENTS OCCURRING AFTER 31.12.2019

No adjusting events or significant non-adjusting events have occurred between the date of the financial statement and the date of its approval for issue, except for the following non-adjusting events:

(1). By Decision No. 237-E from 26.03.2020, the Financial Supervision Commission confirmed the Prospectus for initial public offering and admission to trading on a regulated market of convertible corporate bonds (Decision of “Texim Bank” AD’s Management Board from 06.02.2020 for the issue of 22 000 ordinary, dematerialized, registered, interest-bearing, freely transferable, unsecured, convertible corporate bonds with a nominal value of BGN 1

000, for a total of BGN 22 000 000, with maturity of the bond loan 7 years and a fixed annual interest rate of 2.2%). The public offering process is planned to start in the second half of April 2020, in accordance with the regulatory requirements and conditions set out in the Prospectus and the Decision of the Management Board of 06.02.2020.

(2). On 11 March 2020, the World Health Organization (WHO) announced the COVID-19 coronavirus infection for a pandemic. On 13.03.2020 the Bulgarian government declared a state of emergency for one month and introduced strict measures for the population and business. Notwithstanding the measures taken by supervisors and regulators to limit the negative impact on the markets and economies of countries, the spread of the virus has an adverse effect on economic activity, stock markets, tourism, transport and many other industries.

The management of “Texim Bank” AD took timely measures to ensure the continuity of its operations in the current situation by setting up a temporary crisis management committee, updating the Business Continuity Plan and the Bank's Contingency Plan, preparing an Action Plan, concerning the most important business areas, incl. the activity of the operational units, front offices and cash desks, etc.

The Bank, as a public company and investment firm, will disclose as soon as possible any relevant information regarding the impact of COVID-19 on the key indicators, providing a true and fair view on its financial position and the results of its business activities and will continue to apply risk management requirements.

At the date of preparation of this report, only a partial materialization of the risks of the epidemic is observed, with an assessment regarding the full impact on the Bank being too early to form.

Quantitative and qualitative assessment of the effect of the virus spread on commercial activity, economic development and the Bank's main indicators is difficult to make at the moment, given the dynamic development of the pandemic in the country and around the world, but the impact of the pandemic may affect negatively the quality of the Bank's credit portfolio and lead to price and credit volatility related to the Bank's investments.

IV. MAJOR RISKS

„Texim Bank“ AD actively manages the risks inherent in its operations in order to achieve the optimum ratio between the return on operations and the inherent risk. The risk management is implemented in compliance with the requirements of the Bulgarian legislation and the applicable European directives and regulations, as well as with the existing internal regulations of the Bank.

The processes for managing and controlling the risks arising from the Bank's operations are centralized and implemented by the respective specialized units through the existing internal policies, procedures, rules and methodologies. The risk management framework established at „Texim Bank“ AD provides adequate identification, measurement, monitoring and control of all material risks to the Bank and includes:

- Policies, rules and procedures for the overall identification, measurement, monitoring and control of all material risks to the Bank;
- Organizational risk management structure with appropriate allocation of responsibilities between individual management levels and independence between business units performing functions of creating or renewing exposures and those performing risk assessment and control;

- Regular monitoring processes and appropriate reporting mechanisms to the Management of the Bank to support effective risk management;
- Processes to control the maintenance at all times of sufficient capital available to cover the significant risks, both under normal conditions and under stress conditions;
- Development, improvement and completion of the established risk reporting, analysis and control system in line with the Bank's risk profile, the national and European legislation requirements and the best banking practices.

The policies and processes for managing and controlling all material risks inherent in the operations of „Texim Bank“ AD are consistent with the nature, scale and complexity of the Bank's operations.

4.1. Capital and capital adequacy

The total amount of regulatory equity of “Texim Bank” AD as of 31 December 2019 is BGN 34 931 thousand, 100% of which is common equity Tier 1 capital. The capital adequacy ratios exceed the statutorily required minimum ratios, and their values as of 31.12.2019 are as follows:

- Common equity Tier 1 capital Ratio - 15.55%, whereas the regulatory ratio is 4.5%;
- Tier 1 capital ratio - 15.55%, whereas the regulatory ratio is 6%;
- Total capital adequacy ratio - 15.55%, whereas the regulatory ratio is 8%.

The total amount of the regulatory capital requirements as at 31 December 2019 is BGN 17 969 thousand and their structure by type of risk is as follows:

- Capital requirements for credit risk - BGN 13 600 thousand;
- Capital requirements for market risk - BGN 2 840 thousand;
- Capital requirements for operational risk - BGN 1 529 thousand.

In accordance with the requirements on capital buffers, the Bank maintains a capital buffer of 2.5% of its total risk exposure, a systemic risk buffer of 3% of risk-weighted exposures, and a countercyclical buffer of 0.5% of risk-weighted exposures. As of 31 December 2019, their amounts are, respectively, BGN 5 615 thousand, BGN 6 535 thousand and BGN 1 007 thousand.

The common equity Tier 1 capital surplus reported as of 31 December 2019 amounts to BGN 24 824 thousand and fully complies with the regulatory capital buffer requirements.

In addition to the regulatory capital adequacy requirements, the Bank conducts a regular Internal Capital Adequacy Analysis Process (ICAAP), which periodically evaluates the implementation of the Bank's strategy to maintain sufficient capital available to ensure an adequate level of coverage of the risks assumed, as well as sufficient capital buffer to overcome the stress conditions without jeopardizing the business operations of the Bank. As of 31 December 2019, under normal conditions, the capital required under ICAAP is BGN 21 212 thousand, with BGN 32 696 thousand available and capital buffer under ICAAP (excess over the required capital) of BGN 11 484 thousand. The results of the stress tests carried out as of 31 December 2019 with respect to the significant types of risk show that the Bank's capital adequacy is not ensured in the case of serious economic distress. The capital shortfall under stress is estimated at BGN 1 056 thousand.

4.2. The main risks to which the Bank's operations are exposed include:

4.2.1. Credit risk

The credit risk is the main element of the Bank's risk profile. The credit risk includes all risks arising from the inability of a counterparty, a borrower, an issuer or a debtor (collectively referred to as "Debtor") to implement its liabilities when due under the terms and conditions initially agreed due to changes in its financial or economic situation or other specific circumstance. The credit risk includes the risk of default in the traditional credit transactions, the issuer risk in securities transactions, the counterparty risk in foreign currency transactions, debt and equity instruments, derivative instruments or commodities, the residual risk from risk mitigation techniques used and the state risk.

The Bank has developed a comprehensive credit risk assessment and management system using the various internal methods for analysing and evaluating both corporate clients and retail clients using standardized credit products. The internal policies and rules relating to corporate and corporate and retail lending contain the most important mitigating risk factors and actions and determine the Bank's risk appetite for credit risks.

The Bank manages and controls the exposures that pose credit risk and concentration risk in the credit portfolio through a system of limits, including to individual clients, groups of clients, counterparties and economic sectors. Two bodies – the Credit Council and the Credit Committee – are in place and constantly operating to monitor the processes related to credit assessment, provision and monitoring.

As part of the credit risk, the Bank manages and controls the risk of concentration of exposures to a single client or group of related clients, as well as the risk of concentration of exposures to groups of counterparties with similar characteristics whose probability of default depends on common factors. The management and control of the risk of credit concentrations is achieved by applying limits for large exposures to single or related parties and limits to minimize the concentration by economic sectors. The risks of concentrations by individual exposures and economic sectors are measured on a regular basis and their impact on the Bank's capital adequacy is assessed. The identification, measurement and management of sectoral concentrations and the sectoral limits adopted by the Bank are regulated in the "Concentration Risk Management Policy by Economic Sectors".

4.2.2. Market risk

Market risk is the existing or potential risk to earnings and capital arising from unfavourable changes in exchange rates, market interest rates, prices of shares, bonds or commodities. The market risk refers to those balance sheet and off-balance sheet positions that are subject to losses arising from movements in market prices. It includes mainly the following subcategories of market risks:

Price risk associated with positions in equity instruments in the trading and banking book;

Credit spread risk (specific interest rate risk) associated with positions in debt securities in the trading and banking book, measured at fair value;

Overall interest rate risk arising from positions in debt instruments in the trading book (the interest rate risk arising from debt securities in the banking book is covered by interest rate risk arising from non-trading activities);

Foreign currency risk associated with foreign currency positions arising as a result of the Bank's overall operations. The foreign currency risk arises to a limited extent from the open foreign currency position of the Bank. As at 31 December 2019, the Bank does not recognize a capital requirement for foreign currency risk as the amount of the total net foreign

currency position does not exceed the regulatory defined threshold of 2% of the total regulatory capital.

The Bank manages and controls the market risk through an overall structure of limits grouped by portfolio and risk factors. These limits include the volume by types of financial instruments and portfolios, open foreign exchange positions, value-at-risk limits and potential loss limits. The value-at-risk limits determine the maximum admissible potential loss from a specific financial portfolio within one business day calculated at a 99% confidence level and upon the admission of normal market conditions. The potential loss limits determine the maximum loss amount of a specific financial portfolio that the Bank is willing to assume.

4.2.3. Interest rate risk arising from non-trading activities

The interest rate risk arising from non-trading activities (IRRANTA) is the existing or potential risk of changes in earnings and capital arising from adverse changes in interest rates and their impact on the interest rates in the banking book. The specific interest rate risk (credit spread risk) arising from positions in debt securities measured at fair value is covered by the market risk. The IRRANTA level is limited by limits and is subject to analysis and control by the Asset and Liability Management Committee (ALMC).

4.2.4. Liquidity risk

Liquidity risk is the risk that the Bank would not be able to meet its obligations when they occur or could not finance new business and the possible off-balance sheet claims at any time without having to incur unplanned losses from the sale of assets with a discount on market prices or by refinancing at higher interest rates.

The Bank manages the liquidity risk by daily liquidity monitoring and management, maintaining a sufficient availability of high quality liquid assets to secure inconsistencies between incoming and outgoing cash flows, analysing inconsistencies between incoming and outgoing cash flows at maturity intervals, both in a normal banking environment and in various scenarios of aggravated liquid environments.

Quantitative measure of the liquidity risk according to BNB regulations is the ratio of liquidity coverage. The ratio of liquidity coverage to 31.12.2019 is 433.45% and significantly exceeds the 100% regulatory requirement.

The assessment and monitoring of the liquidity risk is complemented by a regular conduct of stress tests for determining the liquidity level of the Bank when considering different scenarios of Liquidity Crisis. Through stress tests, the Bank's liquidity is determined and analysed under various stress conditions in order to optimize it and to identify specific measures to maintain an adequate level of liquidity buffers. Within the various stress tests, the Bank assesses its ability to provide liquidity at varying degrees of aggravated liquidity. The liquidity risk is limited and managed through limits and is subject to analysis and control by the ALMC.

4.2.5. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

The operational risk is identified and measured as comprehensively as possible in order to identify appropriate measures for its avoidance, reduction, transfer, or deliberate take-up. The strategy of the „Texim Bank“ AD is to minimize the operational risk. The guiding principle is that operational risk mitigation factors (the four-eyes principle, embedded controls, etc.) should be included in the core business processes.

The policies, rules and procedures for identifying, measuring, monitoring, and managing the operational risk are clearly defined in a way that allows documenting, reporting, and communicating of all aspects of operational risk. The adopted internal regulatory framework defines: the basic principles, methods and tools for identifying, measuring and managing the operational risk; the procedures for collecting information and accumulating historical data on internal operating losses relating to all business lines; the rules for conducting internal self-assessment of the individual units of the Bank concerning the level of the operational risk and the level of the controls applied; the rules for monitoring and evaluating key risk indicators (to identify at an early stage the changes in the essential factors for the occurrence of operational events); the mechanisms for reporting information to the Management to take preventive measures and actions in order to minimize the likelihood of occurrence of operational events or to reduce the financial impact of occurring operational events for the Bank.

The Bank has set up an Operational Risk Management Committee, which is a specialized collective body for analysing, reporting and supporting operational risk management, directly subordinate to the Executive Directors of the Bank. Electronic Register of Identified Events and an Electronic Register of Received Complaints are kept, recording all operational events and complaints that have occurred. Operational risk is also identified and managed through key operational risk and self-assessment indicators for the level of operational risk and applied control.

4.2.6. Price risk related to real estate

The price risk related to real estate includes potential losses that could arise as a result of fluctuations in the market value of the real estate owned by the Bank. The risk of real estate provided as credit collateral is included in the credit risk.

The risks of possible fluctuations in the market price of the real estate owned by the Bank are measured by a scenario approach that allows a reduction in the value of the Bank's real estate. On the basis of the decrease in the carrying amount of the Bank's real estate properties, a capital buffer is set to cover the price risk related to real estate, which is deducted from the available capital to cover the assumed risks (credit, market, operational risks) within the Internal Capital Adequacy Analysis Process (ICAAP).

4.2.7. Macroeconomic risk

The macroeconomic risk is expressed in the likelihood of losses occurred due to sharp fluctuations and negative trends in the macroeconomic environment. The Bank assesses the macroeconomic risk within the internal assessment of the adequacy of its available capital to cover the risks assumed in the event of serious economic or market events.

The trends in the macroeconomic factors affect all economic entities in the country, including the Bank. In accordance with IFRS 9, in models for estimating expected credit losses, the Bank also includes information about future periods, including macroeconomic factors that may directly affect the financial result.

V. RESEARCH AND DEVELOPMENT

The Bank does not carry out any research and development operations.

VI. OFFICES AND STAFF OF „TEXIM BANK“ AD

As of December 31, 2019 the Bank operates through Central Management and in 34 offices in 22 settlements. During the year 3 new offices were opened: in Varna - 2 and in

Plovdiv - 1. As of 31 December 2019, the number of staff of the Bank is 302, compared to 306 in 2018. The registered office of „Texim Bank“ AD is 117, Todor Aleksandrov Blvd., Sofia.

The head office of „Texim Bank“ AD is situated at 117, Todor Aleksandrov Blvd., Sofia. In every Bank structure, the clients receive competent service and individual attitude in offering the diverse range of products and services of „Texim Bank“ AD. Throughout the year the Bank continued the process of human resource development, development of selection rules and procedures, the training policy and the improvement of the actions related to planning, monitoring and control of staff expenses, and increased management responsibilities in this area.

VII. FINANCIAL INSTRUMENTS HELD BY „TEXIM BANK“ AD

As of 31 December 2019, the financial instruments held by "Texim Bank" AD are: government bonds, corporate bonds, shares and stocks with a total value of BGN 67 253 thousand, classified at fair value through profit or loss - BGN 25 502 thousand, at fair value through other comprehensive income - BGN 36 227 thousand, and at amortized cost - BGN 5 524 thousand.

Investments in associates, subsidiaries and joint ventures amount to BGN 451 thousand.

As of 31 December 2019, "Texim Bank" AD owns government securities issued by the Government of the Republic of Bulgaria for a total value of BGN 19 082 thousand.

As of 31 December 2019, "Texim Bank" AD holds government securities issued by foreign governments in the amount of BGN 3 083 thousand.

Corporate bonds of Bulgarian and foreign issuers at the end of 2019 amounted to BGN 17,969 thousand, while shares and stocks in enterprises as well as stocks in collective investment schemes held by the Bank amounted to BGN 27 119 thousand.

As of 31 December 2019, the subsidiaries do not hold shares in the Bank.

VIII. IMPLEMENTATION OF THE PROGRAM IMPLEMENTING INTERNATIONALLY RECOGNIZED GOOD CORPORATE GOVERNANCE STANDARDS

„Texim Bank“ AD is registered as a public company with the register of public companies and other issuers of securities under Article 30 (1) (3) of the FSCA by Decision No. 81-ПД of 31.03.2013 of the Financial Supervision Commission.

The responsible management structures and employees of „Texim Bank“ AD carry out the management of the Bank strictly following the requirements and recommendations of the National Code of Corporate Governance (the Code). In accordance with the norms and recommendations stipulated in the Code, the Management Board and the Supervisory Board of “Texim Bank” AD manage the Bank independently and responsibly, following the established vision and strategic guidelines for the operation and ensuring that the interests of the shareholders are respected.

In accordance with the requirements of Article 43a and the following of Ordinance 2 of 17.09.2003 on the prospectuses for public offering and admission to trading on a regulated

securities market and disclosure of information, as well as in conjunction with Article 100t (3) of the Public Offering of Securities Act, concerning the obligation to disclose to the public the information under Article 27 (1) of Ordinance 2, „Texim Bank“ AD discloses the regulated information to the public through the electronic media Infostock AD on their official website: www.infostock.bg.

8.1. Corporate management – structure and functions

8.1.1. Management Board

The Articles of Association of „Texim Bank“ AD determine the functions and powers of the Management Board in accordance with the decisions of the General Meeting and the legal provisions. The Bank is managed and represented by a Management Board which carries out its operations under the supervision of the Supervisory Board. According to the Articles of Association, the Bank's Management Board consists of three to nine able-bodied natural persons who are elected and appointed by the Supervisory Board. As at 31.12.2019 the Management Board consists of 5 members elected by the Supervisory Board for a five-year term of office and may be substituted and re-elected without restriction and at any time by the Supervisory Board.

The Management Board reports to the Supervisory Board on the Bank's operations and situation at least once every quarter.

The competencies, rights and obligations of the Management Board members are determined in compliance with the statutory requirements, the Bank's Articles of Association and the standards of good professional and managerial practice. The Management Board resolves all matters stipulated in the Article of Association and the applicable law and are not within the exclusive competence of the General Meeting or the Supervisory Board.

The powers and functions of the Management Board include:

- a/ To arrange the implementation of the decisions of the General Meeting and the Supervisory Board;
- b/ To define the general guidelines and the Bank's business plan, to take decisions on the credit, interest rate, accounting, risk and risk management policies;
- c/ To open and close branches of the Bank;
- d/ To decide on the participation of the Bank in other companies in the country and abroad;
- e/ To decide on matters relating to the acquisition and management of real estate and property rights thereon;
- f/ To define the structure and positions of the Bank;
- g/ To prepare and propose to the General Meeting the annual report of the Bank;
- h/ To take decisions on any material change in the Bank's operations, significant organizational changes, as well as long-term cooperation that is essential for the Bank, or on the termination of such cooperation;
- i/ To perform all other functions assigned to it by the General Assembly or the Supervisory Board and the law.

The decisions of the Management Board referred to in (b) and (d) to (g), as well as in other cases, according to the Articles of Association and the law, have effect with respect to the Bank after their approval by the Supervisory Board. The decisions referred to in (h) require the prior consent of the Supervisory Board.

The Management Board adopts rules of procedure for its work, which must be approved by the Supervisory Board. The Management Board meets at least once a month, whereby the meetings are convened by the Chairperson, the Deputy Chairperson or the Executive Directors on their own initiative or at the request of a member of the Management Board. The decisions of the Management Board are taken by a simple majority of all

members, unless it is otherwise required by the law or the Articles of Association. When deciding on the election, dismissal or appointment of an Executive Director, the latter is not allowed to take part in the vote. Minutes are kept for the meetings of the Management Board, signed by all members present at the meeting, or the written consents with the decision adopted by all the members involved are attached thereto. The documents from the meeting are also attached to the minutes of the meeting. The Secretary of the meeting should arrange the minutes and their attachments in the relevant Book of Minutes. The Book is kept for at least five years from the end of the year in which the meeting was held.

The election of members of the Management Board is made only after the prior approval by the BNB, in accordance with the requirements of the Credit Institutions Act (CIA) and the applicable subordinate regulations.

According to the Articles of Association, the members of the Management Board are required:

1. To meet the conditions specified in the CIA, including those concerning the required education, qualification and professional experience;
2. Not to have been convicted of a criminal offense of a general nature, including crimes under Article 116a(1) of the Public Offering of Securities Act (POSA);
3. Not to have been members of an executive or controlling body, or partners with an unlimited liability in a company, which has been terminated on the grounds of insolvency and in the presence of unsatisfied creditors with or without restored rights;
4. Not to have been members of the management or supervisory body of a bank in the last five years prior to the date of the declaration of bankruptcy thereof;
5. Not to have been deprived of the right to hold a high liability position;
6. No to be spouses or relatives by direct or collateral line up to third degree between them or with any another member of a management or control body of the Bank;
7. No to be insolvent debtors without recovered rights.

The members of the Management Board are required to perform their duties in the best interest of the Bank and to keep the secrets of the Bank even if they cease to be members of the Board. During their term of office, the members of the Management Board are guided by the generally accepted principles of integrity and managerial and professional competence. According to the Articles of Association, the members of the Management Board are required: to perform their duties with due diligence in a manner that they reasonably consider to be in the interest of Bank and all the Bank's shareholders and by using only information that they reasonably consider to be credible and complete; to exercise loyalty to the Bank and in the performance of their duties to favour the interest of the Bank to their own interest and to avoid direct or indirect conflicts between their interest and the interest of the Bank, and if such conflicts arise, or in case a member of the Board has a business interest (under the CIA) to conclude a commercial transaction with the Bank – to disclose them in writing to the Board in a timely manner, and not to participate or influence the other Board members in taking decisions in these cases.

8.1.2. Supervisory Board

The Supervisory Board of „Texim Bank“ AD consists of three to seven able-bodied natural persons elected by the General Meeting for a term of office of up to 5 years. The Supervisory Board members may also be legal entities. In such cases, the legal entities

appoint a representative to perform their duties in the Supervisory Board. The legal entities are jointly and unlimitedly responsible together with the other members of the Supervisory Board for the obligations arising from the actions of their representatives. The election of members of the Supervisory Board is made only after the prior approval by the BNB, in accordance with the requirements of the CIA and the applicable subordinate regulations. One person cannot be simultaneously a member of the Supervisory Board and the Management Board of the Bank. In order to support its operations, the Supervisory Board may set up specialized committees and other supporting bodies.

As at 31.12.2019 the Bank's Supervisory Board consists of 5 individuals who are elected by the General Meeting for a term of five years and can be re-elected without restriction.

The Supervisory Board member and the representatives of the legal entities who are members of the Supervisory Board, according to the Articles of Association, are required:

1. Not to have been convicted of a criminal offense of a general nature, including crimes under Article 116a(1) of the POSA;
2. Not to have been members of an executive or controlling body, or partners with an unlimited liability in a company, which has been terminated on the grounds of insolvency and in the presence of unsatisfied creditors with or without restored rights;
3. Not to have been members of the management or supervisory body of a bank in the last five years prior to the date of the declaration of bankruptcy thereof;
4. Not to have been deprived of the right to hold a high liability position;
5. No to be spouses or relatives by direct or collateral line up to third degree between them or with any another member of a management or control body of the Bank;

At least one third of the members of the Supervisory Board must be independent persons pursuant to the POSA. The independent member of the Supervisory Board may not be:

1. An employee of the Bank;
2. A shareholder who holds directly or through related parties at least 25% (twenty-five percent) of the votes in the General Meeting, or a related party to the Bank;
3. A person who is in a permanent business relationship with the Bank;
4. A member of any management or supervisory body, procurator or an employee of a commercial company or other legal entity referred to in cl. 2 and 3;
5. A related party to another member of the Supervisory Board or the Management Board of the Bank.

The Supervisory Board carries out general supervision and preliminary, ongoing and ex-post control over the operations of the Management Board. The Supervisory Board does not participate in the management of the Bank and only represents the Bank in its relations with the Management Board. In all cases where the law, the operating rules of the Supervisory Board or the current internal rules of the Bank so provide, the Supervisory Board gives prior authorization for the conclusion of certain transactions. The Supervisory Board may at any time require from the Management Board to present information or report on any matter that affects the Bank. The Supervisory Board may carry out the necessary investigations in the performance of its duties. For this purpose, it can assign experts.

The powers and functions of the Supervisory Board include:

- To elect and dismiss the members of the Management Board;
- To convene the General Meeting;
- To adopt procedure rules for its work;

- To adopt a remuneration policy in the Bank;
- To approve the Rules of Procedure of the Management Board;
- To take and approve decisions for acquiring and disposing of real estate and property rights thereon in the interest of the Bank;
- To approve the decisions of the Management Board in the cases provided for in the laws, the Articles of Association or the Rules of Procedure of the Supervisory Board, including:
 - ✓ The acquisition, closure or transfer of undertakings and parts thereof;
 - ✓ The internal structure, terms of office and organization of the Bank.
 - ✓ Significant internal organizational changes.
 - ✓ Opening and closing of branches.
 - ✓ Amendments to the Articles of Association of the Bank before being submitted for consideration by the General Meeting.
 - ✓ Transactions resulting in the Bank acquiring, transferring or providing as collateral real estate and property rights thereon, receivables and other fixed assets or incurring liabilities and guarantees exceeding the value specified in the Rules of Procedure of the Supervisory Board and/or the current internal rules of the Bank.
 - ✓ Issuance of bonds within its scope of the authorization under the Articles of Association.
 - ✓ Empowering executive directors and authorising Bank's procurator(s).
- To set credit limits, credit lines, accept guarantees, securities and other collateral and the issue of promissory notes by the Management Board without the agreement of the Supervisory Board.
- To resolve other matters in case this is provided for by law or by the Articles of Association.

The Supervisory Board holds its meetings at least once every 3 months. The members of the Management Board may also participate in the meetings with the right to an advisory vote. The meetings are convened by the Chairperson of the Supervisory Board at the request of any of its members and at the request of the Management Board. The meetings of the Supervisory Board are chaired by its Chairperson and are deemed to be regular if at least half of the members of the Supervisory Board are present in person or represented by another member of the Supervisory Board on the grounds of a written power of attorney. No attending member may represent more than one absent member. Minutes are kept for the meetings of the Supervisory Board, signed by all members present at the meeting, or the written consents with the decision adopted by all the members involved are attached thereto. The documents from the meeting are also attached to the minutes of the meeting. The Secretary of the meeting files the minutes of the meetings and the annexes thereto in a Book of Minutes which should be kept for at least five years as from the end of the year when the respective meeting was held.

The members of the Supervisory Board are required to perform their duties in the best interest of the Bank and to keep the secrets of the Bank even if they cease to be members of the Board. During their term of office, the members of the Supervisory Board are guided by the generally accepted principles of integrity and managerial and professional competence. According to the Articles of Association, the members of the Supervisory Board are required: to perform their duties with due diligence in a manner that they reasonably consider to be in the interest of Bank and all the Bank's shareholders and by using only information that they reasonably consider to be credible and complete; to exercise loyalty to the Bank and in the performance of their duties to favour the interest of the Bank to their own interest and to avoid direct or indirect conflicts between their interest and the interest of the Bank, and if

such conflicts arise, or in case a member of the Board has a business interest (under the CIA) to conclude a commercial transaction with the Bank – to disclose them in writing to the Supervisory Board in a timely manner, and not to participate or influence the other Board members in taking decisions in these cases.

The Articles of Association of „Texim Bank“ AD provide for obligations and responsibilities of the members of both the Supervisory Board and the Management Board, which aim to ensure good corporate governance and perform preventive functions to prevent violations of the principles of good corporate governance.

The members of the Supervisory Board and the Management Board are required: not to disseminate information about the Bank and, once they cease to be members, prior to the public disclosure of the relevant circumstances by the Bank; not to disclose information that has become known to them in their capacity of members of the boards if this could affect the Bank's operations and development, including after ceasing to be members of the boards; not to disclose, unless authorized to do so, nor to use facts or circumstances constituting bank secrecy for their personal benefit or for the benefit of members of their family, including after they cease to be members of the boards.

The members of the Management Board and the Supervisory Board are required to provide a guarantee for their management in the amount determined by the General Meeting, but not less than their 3-month gross monthly salaries. The members of the Management Board and the Supervisory Board are jointly liable for the damages intentionally caused to the Bank. Each member of the Boards may be released of their obligations if it has been found that the member is not guilty of the damages.

8.2. Internal rules and procedures

The following internal rules and procedures have been adopted in „Texim Bank“ AD and are in place to ensure the compliance with the principles of good corporate governance in the performance of the functions of the Bank's management and supervisory bodies:

- **REMUNERATION POLICY.** The policy was drafted pursuant to Article 73b of the Credit Institutions Act and Ordinance 4 of the BNB on the requirements for remuneration in banks. The remuneration policy is part of the overall management policy and introduces basic rules, principles and requirements that aim at achieving a balance between the interests of the shareholders, the senior management and the employees, as well as implementing the Bank's business strategy and long-term goals according to the recognized principles of good corporate governance. The policy defines the main guiding functions of the Supervisory Board and the Management Board; thus ensuring that the determination of remuneration is in line with the regulatory requirements and the recognized best practices in this area, namely: the Supervisory Board is responsible for the adoption and control of the implementation of the remuneration policy as a whole; the Supervisory Board approves and controls the remuneration of the senior management and the employees who receive the highest remuneration; the Supervisory Board determines and controls the remuneration of the members of the Management Board in accordance with their powers, responsibilities and experience; the Management Board prepares a proposal for the remuneration of all employees with managerial and supervisory functions. The guiding principles of the Remuneration Policy also include the disclosure of information on the remuneration, the employee appraisal, the periodic review of remuneration and the sound risk management.

- **RULES OF PROCEDURE FOR DISCLOSING CONFLICTS OF INTEREST AND ENSURING CONFIDENTIALITY.** These rules clearly set out the procedures for disclosing

conflicts of interest, ensuring confidentiality to be kept by the administrators, identifying the measures to be taken in case of conflicts of interest, as well as the responsibilities and sanctions for violations found. The rules set up an organization of the Bank's business that prevents administrators and other employees from being placed in a situation where their obligations to a client are in conflict with their obligations to another client or where their own interests are in conflict with their obligations to a client of the Bank.

- **RISK MANAGEMENT RULES** - The risk management framework at „Texim Bank“ AD provides adequate identification, measurement, monitoring and control of all material risks to the Bank and includes:
 - Policies, rules and procedures for the overall identification, measurement, monitoring and control of all material risks to the Bank;
 - Organizational risk management structure with appropriate allocation of responsibilities between individual management levels and independence between business units performing functions of creating or renewing exposures and those performing risk assessment and control;
 - Regular monitoring processes and appropriate reporting mechanisms to the Management of the Bank to support effective risk management;
 - Processes to control the maintenance at all times of sufficient capital available to cover the significant risks, both under normal conditions and under stress conditions;
 - Development, improvement and completion of the established risk reporting, analysis and control system in line with the Bank's risk profile, the national and European legislation requirements and the best banking practices.
- The policies and processes for managing and controlling all material risks inherent in the operations of „Texim Bank“ AD are consistent with the nature, scale and complexity of the Bank's operations.

8.3. Internal control and audit

“Texim Bank” AD has an internal control system in place which contains control functions with appropriate jurisdictions to fulfill their respectful obligations. The control functions at "Texim Bank" AD include: risk control, compliance and internal audit functions. The risk control function ensures that the risks to which the Bank is exposed are appropriately identified and managed by the relevant units and provides the competent management authority with a comprehensive overview of all risks. The rule compliance feature manages the risk of non-compliance. Internal audit assesses the effectiveness and efficiency of the internal control framework. Internal control functions verify that the policies, mechanisms and procedures set out in the internal control framework are properly applied in their respective areas of competence.

The internal control framework covers the entire organization, including the activities of all structural, subsidiary and control units, outsourcing and distribution channels with sound administrative and reporting procedures.

The internal audit activity at "Texim Bank" AD is carried out by a specialized internal audit service (SIAU), which provides independent and objective management assurance and advisory services designed to add value and improve the Bank's operations. The mission of the SIAU is to provide the Bank's Management with independent, objective and impartial assessments of the risks and the control responses associated with the management, operations and information systems in relation to: strategy, reliability and integrity of financial and operational information; efficiency and effectiveness of operations, including asset protection; compliance with laws, regulations and internal instruments and contracts.

The scope of Internal Audit activity includes all structures, programs, activities and processes in the Bank, including risk management procedures, internal control systems, and management processes. The SIAU's activity includes periodic transaction checks, review of

the compliance with the best banking practice, the compliance with the regulatory requirements, proposals to introduce preventive measures to prevent and detect fraud.

The SIAU carries out its activities in accordance with the Annual Audit Plan. The Annual Audit Plan is developed and updated on a risk-based methodology, which is to be evaluated at least once a year.

In performing its functions, the SIAU checks and evaluates:

- The management process aimed at promoting ethical relations and values in the Bank; the provision of effective management and responsibility; the communication to the relevant risk and control units; the coordination of activities and exchange of information between external auditors and the Management;
- The reporting and information system, the usefulness of the analyses made and the accuracy of the data;
- The legality of operations, the compliance with the internal rules and procedures and the implementation of the management decisions;
- Compliance of internal control policies and procedures with regulatory requirements, as well as with decisions of management and supervisory bodies;
- The accuracy and efficiency of the implementation of internal policies and procedures;
- The results and the efficiency of the activity;
- The possible occurrence of fraud;
- The risk management systems, risk assessment methods and capital adequacy;
- The appropriateness, quality and effectiveness of the control activities performed by the units responsible for operational control of the business units in conducting transactions and operations, the risk management structure and the regulatory compliance service;
- The reliability and timeliness of supervisory reports;;
- Protection of the Bank's assets from mismanagement and misappropriation;
- Implementation of contracts and commitments;
- Selection and qualification of staff as well as the compliance of job descriptions and competencies.

"Texim Bank" AD has an audit committee set up as an independent body. The Audit Committee monitors: the financial reporting process and submits recommendations and proposals to ensure its effectiveness; the effectiveness of the internal control system, the risk management system and the internal audit activity with respect to the Bank's financial reporting; and verifies the independence of registered (external) auditors in accordance with the requirements of applicable law and Regulation (EU) 537/2014, including the appropriateness of providing additional services beyond the Bank's audit; the statutory audit of the annual and consolidated financial statements, and in particular the implementation of its implementation; the independence and effectiveness of the internal audit and oversees the relationship with the external auditor; The Audit Committee acts in accordance with the elaborated and approved Rules of Procedure and Regulation set out in the Independent Financial Audit Act. The Bank's management, assisted by the Audit Committee, in writing justify before the General Meeting their proposition for an auditor, guided by the established requirements for professionalism.

In connection with the adopted Independent Financial Audit Act, in the 2019 General Meeting for joint audit of the 2019 Annual Financial Statements on an individual and consolidated Basis of "Texim Bank" AD and of the supervisory reports, as determined by the Bulgarian National Bank, the audit companies "Grant Thornton" OOD and "RSM BG" OOD have been selected to jointly perform the audit.

8.4. Protection of the rights of the shareholders

Shareholders of the Bank may be Bulgarian and foreign natural persons and legal entities. The Bank's shares are dematerialized securities which certify that their holders hold interest in the Bank's equity equivalent to the specified nominal value thereon. Each ordinary share entitles its owner to one vote to the General Meeting of Shareholders, to a right to dividend and right to a liquidation share, in proportion to the par value of the share. The Bank's shares can be transferred freely subject to the requirements of the applicable legislation. The Bank's Book of Shareholders is kept by Central Depository AD, which issues certificates of shares under the terms and conditions and according to the procedure set out by the effective legislation. Any person who has acquired a dematerialized registered share and is listed in the Book of Shareholders at Central Depository AD acquires the capacity of a shareholder of the Bank and may exercise the rights of a shareholder in accordance with the Articles of Association and the effective legislation. The transfer of the dematerialized registered shares issued by the Bank takes effect as from the moment of the registration of the transaction by "Central Depository" AD.

The shareholders of the Bank have the following rights:

- Right to vote in the General Meeting and one share gives the right to one vote;
- Right to dividend in proportion to the nominal value of the shares held. The persons registered with the records of Central Depository AD as shareholders are entitled to dividend pursuant to the POSA on the 14th day after the date of the General Meeting which adopted the annual financial statements and made a decision on the allocation of profit;
- Right to a liquidation share in proportion to the nominal value of the shares held;
- Right to the acquisition of part of the new shares issued in the capital increase in proportion to their holdings in the capital before the capital increase;
- Right to review the written materials relating to the agenda of the General Meeting;
- Right to authorize in writing another person to represent them in the General Meeting, subject to the requirements laid down in the Articles of Association and in the POSA;
- Other rights under the Articles of Association and the effective legislation.

Each shareholder may request information about the Bank's situation at any time and in compliance with the statutory regulations. The members of the Management Board and the Supervisory Board of the Bank are required to respond exhaustively and precisely to the shareholders' questions asked at the General Meeting on the economic and financial situation and the business activity of the Bank, unless the questions concern circumstances and facts constituting internal information, or any other secret protected by law.

The General Meeting of Shareholders of the Bank consists of all shareholders entitled to vote. The shareholders participate in the General Meeting in person or through representatives. The right to vote in the General Meeting pursuant to the POSA is exercised only by persons registered as shareholders with the Book of Shareholders of the Bank kept by Central Depository AD within 14 days before the date of the General Meeting according to the list of shareholders provided by Central Depository AD. The shareholders who are legal entities will be represented by their legal representatives, identifying themselves with their ID documents and the certificate of good standing of the relevant legal entity. The shareholders who are natural persons will be identified with their ID documents. The shareholders – legal entities or natural persons – may also be represented at the General Meeting by proxies authorized by power of attorney issued under the terms and conditions and according to the procedure laid down in Article 116 of the POSA. The signature of the authorizing shareholder must be certified by a notary public. At the General Meeting, each shareholder may be

represented by one proxy only. The powers of attorney must be presented to the Bank one business day before the date of the General Meeting.

The General Meeting may be convened by an invitation, announced in the Commercial Register at least 30 days before the opening of the General Meeting. The invitation is posted on the Bank's website and disclosed to the FSC and the public under the terms and conditions and according to the procedure laid down in the POSA. From the announcement of the invitation to the date of the General Meeting, the materials of the session are available to the shareholders and their representatives.

The texts in the materials are specific and clear and will not be misleading to the shareholders. All proposals for major corporate events are presented as separate items on the agenda of the General Meeting, including the proposal for profit distribution.

The Management Board exercises effective control on the holding of the General Meeting, providing the necessary organization for the voting of shareholders and authorized persons in accordance with the instructions of the shareholders. The Management Board arranges the holding of the General Meeting and ensures the equal treatment of all shareholders and the right of each shareholder to express their opinion on the items on the agenda. The Management Board assists the shareholders empowered by the court to include additional issues on the agenda of the General Meeting. The shareholders are informed about the decisions of the General Meeting of Shareholders by publicly announcing the Minutes of the General Meeting and their publication at the Commercial Register.

IX. GUIDELINES IN THE OPERATIONS OF THE BANK IN 2020

9.1. The following may be outlined as the **strategic operating goals** for 2020:

- *In the first quarter of 2020, we expect the submission to the FSC of a prospectus / registration document, securities document and summary / for issue of ordinary, dematerialized, registered, interest-bearing, freely transferable, unsecured, convertible corporate bonds with par value BGN 1 000, totaling BGN 22,000,000.;*
- *To maintain and extend the accepted priorities regarding the product and customer base, information and personnel support;*
- *To maintain high professionalism in client service, client-oriented strategy, expanding the range of core credit, deposit and combined products and related financial services to natural persons, private businesses, etc.;*
- *To actively participate in the money and capital market in order to increase the efficiency of the transactions;*
- *Participation in the implementation of harmonized statistical reporting in compliance with the economic and convergence criteria in the field of payment balance; unification of risk analysis and management systems in the context of the Basel III requirements, application of international accounting standards and the IFRS 9, IFRS 16, MiFID II requirements.;*
- *To optimise and effectively control over the revenue and expenditure of the Bank's budget.*

9.2. Important highlights in the 2020 activities will be:

- *Increase in Tier 2 capital by issuing convertible corporate bonds;*
- *Administration of the corporate bond issue;*
- *Attracting funds and investing effectively, combined with a thorough analysis of potential risks;*

- *We will continue to look for opportunities to diversify our programs and product lines, with a high priority being the formation and management of a well-diversified trading portfolio, corporate and retail banking, trust services, trust management, long-term investment and project financing for technological upgrading, improving the competitiveness and efficiency of economic entities, etc.;*
- *Cost optimization and strict budget planning.*

The management and employees of "Texim Bank" AD will continue to work to expand their market share in corporate and retail banking while maintaining the universal trading profile and the main competitive advantages in the area of offering financial services packages and other instruments.

For the SB and MB of "Texim Bank" AD, the problem of securing the capital position has always been a major focus of the business.

Throughout the year, the efforts of the Bank's team will focus on maintaining very good performance indicators related to core capital ratios, liquidity and structural performance indicators in accordance with macro-prudential requirements. The Bank will continue to maintain very good liquidity ratios, combined with permanent monitoring of indicators and optimal asset and liability management.

The Bank has an approved recovery plan developed in accordance with the requirements of the Law on Recovery and Restructuring of Credit Institutions and Investment Intermediaries, as well as in accordance with EBA (European Bank Authority) standards and regulatory technical standards.

9.3. The short- and medium-term objectives of the Bank's operations are focused on:

9.3.1. Developing new products and services

The specialists of „Texim Bank“ AD will continue to develop specialized credit and deposit products tailored to the client requirements, the business specifics and the market environment. The Bank develops a wide range of credit products in the field of consumer lending by offering competitive lending parameters and conditions. As an investment intermediary, the Bank will continue to carry out transactions relating to the purchase and sale of securities, custodian services, repo transactions, transactions as a registration agent, related to the change of personal data of the holders of securities in transfers, inheritances or donations, registration of pre-negotiated deals, etc.

"Texim Bank" AD is included in the list of banks servicing all programs of the Agriculture Fund. In connection with the signed memorandum with MF "Agriculture", in order to facilitate the administration of the processes and the document flow, electronic exchange of information on the availability of bets and their deletion in the crediting of applicants for assistance under schemes and direct payment measures is considered. The Bank stands ready to assist its clients in the development of projects funded by EU structural and cohesion funds.

The management plans to develop and expand the service of the budget sphere. An important priority in the activity of the "Corporate and Institutional Banking" department is participation in tenders (procedures) with offers for servicing different units in the budget sphere. In 2019, a financial strength rating of "Texim Bank" AD from BACR was prepared.

9.3.2. Increasing generation of earnings through careful credit policy, credit administration reliability, and enhanced ex-post control over the business.

The strategy of „Texim Bank“ AD for credit operations in 2020 is fully consistent with taking a reasonable risk. Our goals are to maintain a well-balanced and structured credit

portfolio with a minimum relative share of doubtful loans and constantly optimizing the price-service ratio. In 2020 the Management will work towards efficient and prudent management of the loan portfolio (in terms of size, structure and ratios between different types of loans), analysing and forecasting the dynamics of resources according to criteria such as: maturity, risk, clients, industries, resource market, etc.

9.4. The planned amount of loans and receivables from corporate clients as at 31 December 2020 is BGN 113 million, i.e. with planned growth of 8%. The planned interest income on loans to corporate clients as at 31.12.2020 amounts to BGN 4,9 million. Compared to the previous year, the interest income growth is 4,6%. The revenues from fees on off-balance sheet commitments amount to BGN 175 thousand.

The main restrictive parameters for the provision of new loans in the field of corporate lending are:

- Optimizing credit repayment deadlines;
- Limiting lending to clients with problems in terms of debt collection and payment of liabilities, with declining net sales revenues and other negative financial indicators and business circumstances;
- Limiting loans with long grace period;
- In-depth analysis of the newly opened loans in terms of return on investment, giving priority to projects with faster returns;
- Comprehensive analysis of the solvency of the borrower. Targeting clients with good credit history and alternative options to service their loans as well as clients providing deductible in the credit transactions and maintaining funds in their current accounts that exceed the relevant monthly repayment instalment on the loan used;
- Maximum protection against credit risk during the period of the loan; Credit risk management will be carried out through continuous monitoring, focusing on: deepening the analysis of the economic situation and the market conditions for the sectors where the borrowers are positioned and their financial and economic situation, while preserving the existing forms, timing and content of the monitoring process; undertaking proactive actions by the Bank and the clients as a result of established specific risk factors related to the borrowers, the business operations and the market environment, their financial and economic situation, the management of the provided collateral, etc. The increase of the Bank's protection in the conclusion of credit transactions will be realized by minimizing the negative effects for the Bank upon the conclusion of annexes related to amendments of the terms on loans and interest rates different from the initially agreed ones;
- When granting loans to legal entities, sole proprietors and farmers, the aim is to extend the business, including through projects under the EU Structural Funds, only in proven existing market and in sectors with no appreciable impact of the economic crisis.

9.5. “Retail banking” segment

The Bank's goals for 2020 in the retail banking segment are related to:

1. Expanding the partner network of dealers for commodity lending, which offer the credit products to the Bank.
2. Continuing the strategy adopted with respect to:
 - Increasing the volumes of the new business by selecting and training sales teams positioned in the Bank's branch network.
 - Structured approach and development of special offers to attract new clients for banking services.

The planned amount of loans extended to individuals and households at the end of 2020 is BGN 55 million, which is a net increase of BGN 8.8 million compared to 31.12.2019, or an increase of 19%.

The following means will be used to achieve the objectives in this area:

➤ **Expansion and active interaction with the affiliate network of merchants**

The Bank will continue to invest in the management of relationships with credit intermediaries and merchants offering credit products to individuals. In terms of commodity lending, staff will be trained in each office to assist merchants in their interaction with the Bank. Active communication and assistance after the conclusion of the contract with the Bank will lead to higher commodity lending results and greater satisfaction among merchants and end customers.

Alternative sales channels through affiliate network - merchants with potential for development, and in 2020 we will rely on active regular interaction with our partners in order to achieve higher lending results for individuals.

➤ **Continuing the strategy adopted with regard to:**

- Increase and improve the results by selecting and training sales teams positioned within the Bank's branch network;
- Structured approach and special offers for attracting new customers for banking services;
- Planning of sales campaigns covering different target customer groups in order to achieve structured communication, leading to long-term relationships and increasing the used products and services;
- Combining competitive offers for lending to individuals with one of the fastest market approval times, which increases customer satisfaction and loyalty;
- Development of combined packages for individuals for payments;
- Developing and upgrading distribution channels and alternative banking platforms.

The following means will be used to achieve the objectives in these areas:

➤ **Developing card services and products;**

- **Improvement and implementation of innovative remote banking solutions.** The Internet and mobile banking services will continue to be refined in 2020, as well as the activities to expand the range of products and services offered, with the aim of optimizing costs and promoting a high-tech image of the Bank. The range of products and services that will be offered through alternative distribution channels continues to expand.

9.6. Developing card services and products

In 2020, the main emphasis in the development of the card business will be focused on the official commissioning of its own authorization centre (Host) and the active participation of "Texim Bank" AD in the "New Generation" project of the National Card Operator - "Borika" AD .

Successfully completed functional tests in 2019 give us the assurance that our own authorization system will be formally launched in February 2020. Currently, this system works in parallel with the Bank's existing file exchange systems with the national card operator, with all official debit cards , as well as some of the Bank's debit card customers have already migrated to it. It is expected that by the end of May 2020, a large part of the debit cards will be included in the new system. This will allow the execution of bank card

transactions such as blocking, unblocking, change of transaction limits and unblocking of 3 wrong PIN codes without the client having to visit an office of the Bank. This, in turn, will contribute to enhancing the competitiveness of the products offered and to consolidating the high-tech image that the Bank strives for.

In 2020, one of the largest projects of "Borika" AD in which the Bank is actively involved, called "New Generation" is expected to be completed. In practice, this is a process of migration of the national card operator to a new generation authorization system - Open way. The project covers all elements of the card business and its implementation will enable the banks, members of "Borika" AD, such as "Texim Bank" AD, to offer a high level of flexibility in the provision of new services, real-time fraud prevention and guaranteed continuity of services.

Of equal importance is the security requirements project 3-D Secure - version 2.0, aimed at thoroughly establishing the identity of the customer when making payments with Internet cards through the use of biometric data and other authentication methods. The regulatory deadline has been extended to 1 September 2020 and "Texim Bank" AD will make every effort to promptly implement and enforce PSD2 provisions regarding the issuance of bank cards.

In terms of Acquiring bank card payments, the Bank plans to communicate clearly and purposefully with its e-Commerce merchants, aiming to clarify which regulations require change, what are the benefits to businesses of switching to 3-D Secure v2.1 and what are the time frames for merchants to adapt their migration sites to new systems.

In the past years as well as in 2020, "Texim Bank" AD will continue to develop its card business both in terms of issuing bank cards and servicing payments to physical and virtual merchants, as well as withdrawing cash from ATM terminal devices.

The goal for debit cards is to reach 12 000 by the end of 2020.

The growth of newly issued credit cards remains relatively constant in 2019. The goal for 2020 is to reach 2 200 credit cards.

With respect to credit cards, the Bank will continue to make efforts not only to increase the number of cards issued, but also to increase the volume of transactions and balance sheet debt. By the end of 2019 the total balance sheet debt formed by credit cards amounted to BGN 1,7 million and is expected to exceed BGN 2 million by the end of 2020 and the credit limit extended to reach BGN 7,5 million.

After significantly expanding its product portfolio over the last two years, in 2020 the Bank's efforts will be focused mainly on the development and validation of the products introduced, as well as on their adaptation to customer needs.

In 2020 "Texim Bank" AD will continue to maintain its image of a high-tech bank, with plans to have all newly opened offices equipped with printers for the Instant Issuance service of debit and credit cards at the Bank's office. In parallel, it will also work towards increasing the POS and ATM terminal network. The main objective will be to attract new merchants who realize high turnover through the installed POS terminals at their sites. The revenue from fees and commissions from merchants of the Bank with physical and virtual POS terminals is expected to exceed BGN 2 million in 2020.

With the growth of the Bank's branch network in 2020, the development of the ATM terminal network will continue, with the number expected to reach 43 units.

9.7. Client service concept – private banking, investment banking and asset management

The "Private Banking" strategy from the last years for expanding the client base and the range of services offered is showing results and at the moment "Texim Bank" AD can claim good positions in the segment of special banking and financial services in the country.

However, the market realities of the "Private Banking" business impose increased customer requirements and criteria, both on the range of products and services offered, as well as on speed, convenience, security and all at the lowest possible transaction and other operating expenses.

On the other hand, the ever-changing regulations of national and European legislation impose serious challenges, both in terms of meeting the increasingly complex requirements and in administering them. In this regard, considerable human and financial resources are devoted.

The main challenge and goal for "Private Banking" in the 2020 Strategy is to segment customers according to carefully selected principles and criteria, as well as to introduce conditions for the reasonable charging of the additional benefits and value that "Private Banking" brings to each client.

High standards of banking with significant clients require the "Private Banking" team to continually impose more and more value on dealing with each client - new technological solutions and opportunities for communication, acceptance, execution and confirmation of orders. All of this should be in line with the high requirements of the legislation and customers for more security, more speed, more efficiency.

Other major goals and objectives of the "Private Banking" department for 2020 are:

- Expanding the customer base with new clients - 10%;
- "Private banking" customers resource growth increase by 10%;
- Stabilization and expansion of customer relations for realization of more products and services of the Bank;
- Growing the opportunities in customer service for individuals - own business, companies - employees and partners of the company;
- Promoting the benefits and added value of the "Private Banking" model at "Texim Bank" AD;
- Additional effect on the image of the Bank in the segment of luxury customer service.

The Bank Group on a consolidated basis includes „Texim Bank“ AD (the Parent Bank) and the controlled subsidiary “Texim Asset Management” EAD. As at 31 December 2019 the Bank held 100% of the capital of “Texim Asset Management” EAD, which in turn manages the operations of four mutual funds: Mutual Fund Texim Bulgaria; Mutual Fund Texim Money Markets; Mutual Fund Texim Balkans and Mutual Fund Texim Commodity Strategies.

As at 31 December 2019, the Parent Bank owns 100% of the shareholding in “Teksim Proekti” EOOD. The subsidiary “Teksim Proekti” EOOD is a limited liability company.

In the future, “Texim Asset Management” EAD will continue to strive for positive financial results, taking into account the real economic conditions in the country.

The future results of “Texim Asset Management” EAD will depend to a large extent on the recovery of the Bulgarian capital market as well as the macroeconomic data concerning our country: GDP growth, unemployment rate, income of the population, etc. In the short and medium term, “Texim Asset Management” EAD will seek to benefit from the capital market potential and the funds managed by the Company will invest in undervalued companies with

prospects for good financial performance. This would lead to an increase in the assets managed by the funds and hence to an increase in the revenue for the Management Company. The Company will continue its advertising policy aimed at attracting fresh financial resources.

No significant increase in the number of staff is planned, which will keep the level of expenses on salaries, social security and pension contributions relatively constant. The increase of the share of revenues and the maintenance of the relatively constant share of the expenses will ensure the growth of the positive financial results of “Texim Asset Management” EAD.

9.8. Custodian services and bondholder trustee

In the past 2019, "Texim Bank" AD has maintained the upward trend in the assets under custody.

In the face of increasing volumes, the accumulated experience and extensive expertise of employees have played an important role in serving institutional clients with respect to the different features of foreign markets, double taxation treaties and securities trading regimes abroad.

In 2020 "Texim Bank" AD will continue to invest in the information security necessary for its operations, which complies with the regulatory requirements, as well as in its customer-oriented and qualified personnel, guaranteeing the quality of the offered services. The availability of information security and qualified personnel are a prerequisite for maintaining the high level of service provided to institutional clients, as well as for increasing their number in 2020.

The accumulated experience and the high quality of execution led to the recognition of "Texim Bank" AD as a reliable partner in the Bondholder Trustee service. In 2020, the Bank will continue to realize its potential to maintain the trend of increasing the number of serviced bond issuers.

The tendency to choose the Bank as a preferred partner in its capacity of a bondholder trustee and a bank providing depository and custody services will continue in 2020.

9.9. Improving and implementing innovative remote banking solutions

In 2020, the refinement of the Internet banking service will continue, as well as the activity related to expanding the range of products and services offered in order to optimize the costs and to promote a high-tech image of the Bank.

We plan to expand the services offered through the Call Center, which will improve customer service.

The range of products and services that will be offered through alternative distribution channels continues to expand.

Regarding the **IT development strategy** for 2020 the focus remains in the following areas:

- Continuation of the project for modernization of the IT infrastructure;
- Continuation of projects related to the implementation of international regulatory standards IFRS 9, Mifid II, MiFIR, PSD2, GDPR
- Automation of internal processes to achieve faster decision-making;
- Development and improvement of remote banking services;
- Expanding presence with the opening of new offices.

The main IT projects for 2020 include:

- **Main hardware infrastructure upgrade project:** Delivery and deployment of a new storage system and server infrastructure, new firewalls, migration of core systems;

- **Expansion of the banking services available via the Internet banking system.** The launch of a new redesign project on the Internet banking system interface;
- **Implementation of the regulatory frameworks in the Bank's processes and systems in line with the International Financial Reporting Standard (IFRS) 9, Mifid II (Directive 2014/65/EU), Markets in Financial Instruments (MiFIR) - Regulation (EU) No 600/2014**
- **Implementing projects related to the Payment Services Directive (PSD 2) - Directive (EU) 2015/2366;**
- **Construction of automated interfaces with CCR and NSSI;**

9.10. Liquidity and markets

With respect to liquidity and investment management, "Texim Bank" AD will continue to follow a conservative model of behavior in 2020. Market conditions, geopolitical and economic conditions will be analyzed on an ongoing basis, in particular monitoring the decisions and policies of the ECB and the Fed in the context of global economic and political processes.

In order to meet the requirements for servicing state and municipal budget accounts, the Bank will continue to maintain optimal levels of government securities portfolios, and after careful analysis will invest in higher-yielding medium and long-term government securities, with the majority the investments being directed to domestic and foreign Bulgarian government securities. Depending on the situation, investments in government bonds of EU countries are also considered, with a careful analysis of both the situation in the particular country and the international one and avoiding high-risk assets. In order to achieve higher yield and diversification of the portfolio, the Bank will also analyze the possibility of investing in corporate bonds as well, and a thorough analysis of the issuer will be mandatory.

"Texim Bank" AD will continue to improve the developed system for analysis and monitoring of liquidity, which on the basis of information system references and other data prepared on this basis gives a clear idea of the real situation regarding liquidity and facilitates its management.

The measures that "Texim Bank" AD will take to achieve the above goals and effects by the end of 2020 are the following:

- The Bank will continue to maintain its Liquidity Coverage Ratio (LCR ratio) and its Net Stable Funding Ratio (NSF ratio), calculated in accordance with Regulation 575/2013 and in accordance with the "Recovery Plan" adopted by the Bank and the annexes thereto, where an additional buffer on minimum regulatory requirements is mentioned. For this purpose, active and permanent monitoring of the liquidity indicators will be applied and the assets and liabilities of the Bank will be managed with adequate for the respective situation.
- By the end of 2020, "Texim Bank" AD plans to participate in the auctions conducted by the BNB and to acquire government securities of the Republic of Bulgaria, both from the auctions conducted by the BNB and on the secondary market. The Bank will maintain a portfolio of government securities to the extent that it achieves good liquidity, servicing municipal and state budget accounts, for which it is obliged to block government securities. The Bank will generally seek to maintain the maturity of the government securities portfolio between 5 and 20 years.
- Within the period until the end of 2020, "Texim Bank" AD will continuously analyze the investments already made in the context of economic processes and will, after consideration and careful analysis, manage its portfolios in debt and equity

instruments, with careful analysis of the economic situation and the issuer of the relevant security being prepared beforehand in compliance with applicable regulations and good banking practices.

- In 2020, the Bank will continue to develop its liquidity analysis and monitoring system. Through it, the Bank's structural liquidity management units will be able to make adequate, informed and timely decisions for its management. The Bank will update the developed risk assessment and diversification system.
- In 2020, "Texim Bank" AD will continue to monitor changes in the money markets and optimize cash flows and liquidity through transactions on the interbank market.

In the area of attracting funds in 2020, the Bank will continue to work towards:

- Developing and offering quality products and services at competitive levels in the major liability segments. "Texim Bank" AD will continue to implement an adequate deposit interest rate policy that is fully tailored to market conditions and the competitive environment;
- Improving the quality of customer service and the quality of services, individual and package effective solutions and products for their clients;
- Development of distribution channels for bank deposit products;
- Good image and affirmation of the trust of the clients of "Texim Bank" AD, as well as attracting new depositors;
- Coordinated asset and liability management by optimizing the spread between earnings on profitable assets and liabilities prices.

The Bank's strategy for attracting funds from customers is to maintain the growth rate of the past years, with the conservative forecast for 2020 rising by about 15% compared to 2019, or by nearly BGN 50 million in absolute value. The total attracted funds are expected to reach BGN 365 million compared to BGN 317 million as of 31.12.2019.

9.11. Strategy in the field of interbank and international operations

Expansion of the product range is expected in the area of commercial financing and international payments incl. work with letters of credit, documentary operations, etc. For international payments, we expect growth to continue, with the aim being to increase the volume of overseas transfers and payments, as a continuation of the policy pursued in 2019 and the growth of these banking services over the past year.

Work towards establishing the Bank as a reliable partner for clients in the field of foreign currency payments through efficient, high quality and prompt servicing of client's translation orders will continue.

We plan to undertake additional activities related to optimization and automation of the processes in the Bank's information system through the use of various distribution channels, providing additional opportunities for executing client translation orders in order to fully meet their current needs.

With regard to payment technology, work is being done towards successfully finalizing the process for activating SWIFT GPI in the payment system through UniCredit Milano and optimizing the newly introduced SWIFT - Fast Work version.

Work will continue on optimizing the costs associated with payments by actively managing the targeting of customer transactions through the optimal channels in accordance with their conditions, without affecting the quality of the activity performed.

The work related to the introduction and management of reporting in accordance with the requirements of MIFID, the automation of the preparation of the required reports and

optimization of the interaction of the department with its other integrated units in "Texim Bank" AD (Liquidity, Accounting, Security, Banking, Private Banking, etc.).

The steady growth of incoming foreign currency transfers by offering competitive tariff terms to the benefit of the Bank's clients will be strengthened in 2019.

The Bank's team will continue to improve the activities related to the timely, qualitative and effective execution of all back-office operations in order to smoothly conduct and execute foreign exchange and domestic market transactions, interbank deposits in leva and foreign currency, government securities and corporate securities.

X. INFORMATION DISCLOSED IN VALUE AND QUANTITY ON THE MAIN CATEGORIES OF GOODS, PRODUCTS AND/OR SERVICES PROVIDED, INDICATING THEIR SHARE IN THE SALES REVENUES OF „TEXIM BANK“ AD AS A WHOLE AND THE CHANGES OCCURRING DURING THE REPORTING YEAR.

10.1. LENDING

Loans and receivables from clients

Types of clients

	As at 31.12.2019	As at 31.12.2018
Private companies	92,879	82,269
Natural persons and households	46,206	34,884
Budget	-	1
Financial undertakings	11,724	14,603
Impairment for non-collectability	(2,629)	(3,029)
TOTAL	148,180	128,728

By industries

	As at 31.12.2019	As at 31.12.2018
Individuals	46,206	34,884
Manufacturing	7,352	5,020
Services and others	23,869	28,074
Trade	29,151	25,646
Budget	-	1
Construction	3,001	3,330
Transport	17,293	18,754
Agriculture	1,634	1,445
Finance	22,303	14,603
Impairment for non-collectability	(2,629)	(3,029)
TOTAL	148,180	128,728

10.2. CARD PAYMENTS

- In 2020 the main emphasis in the development of the card business will be focused on the official commissioning of its own authorization center (Host) and the active participation of "Texim Bank" AD in the "New Generation" project of the National Card Operator - "Borika" AD.

- In 2020 one of the largest projects of "Borika" AD, called "New Generation", in which the Bank is actively involved, is expected to be completed.

- Not less important is the 3-D Secure - Version 2.0 security compliance project, which aims to thoroughly identify the customer's identity when making card payments on the Internet through the use of biometric data and other authentication methods.

- Increase in the number of debit and credit cards issued - accordingly, for debit cards, we expect their number to reach 12 000 by the end of 2020, and for credit cards - 2 200. We anticipate that at the end of 2020, the total balance sheet debt generated by credit cards will exceed BGN 2 million and the credit limit extended will reach BGN 7.5 million.

10.3. DEPOSITS

The table below summarizes information on deposits from clients other than credit institutions as of 31.12.2019 excluding operating lease obligations amounting to BGN 3 305 thousand.

	As at 31 December 2019			As at 31 December 2018		
	BGN	Foreign currency	Total	BGN	Foreign currency	Total
RESIDENTS	212,092	99,659	311,751	157,497	75,215	232,712
Budget	13,834	-	13,834	7,319	2	7,321
Finance	8,962	6,397	15,359	12,274	6,992	19,266
Individuals and households	96,289	57,633	153,922	67,311	44,177	111,488
Services	34,499	10,973	45,472	17,762	6,588	24,350
Industry	6,033	2,081	8,114	2,409	1,935	4,344
Commerce	31,110	15,157	46,267	32,477	7,319	39,796
Transport	10,973	5,234	16,207	10,170	3,571	13,741
Construction	6,908	1,524	8,432	5,557	4,532	10,089
Agriculture	3,483	600	4,143	2,218	99	2,317
NON-RESIDENTS	500	5,395	5,895	583	5,341	5,924
	212,592	105,054	317,646	158,080	80,556	238,636

XI. INFORMATION ON REVENUE BROKEN DOWN BY THE SEPARATE CATEGORIES OF ACTIVITIES, INTERNAL AND EXTERNAL MARKETS, AS WELL AS INFORMATION ON SOURCES OF SUPPLY OF MATERIALS NECESSARY FOR THE PRODUCTION OF GOODS OR FOR THE PROVISION OF SERVICES INDICATING THE DEGREE OF DEPENDENCE ON EACH INDIVIDUAL SELLER OR BUYER/USER, AND IN CASE THE RELATIVE SHARE OF ANY OF THEM EXCEEDS 10 PER CENT OF THE EXPENSES OR REVENUES FROM SALES, INFORMATION IS PROVIDED FOR EACH PERSON INDIVIDUALLY ABOUT THEIR SHARE IN THE SALES OR PURCHASES AND THEIR RELATION WITH THE ISSUER

In 2019, the Bank generated net revenues by different types of operations as follows:

- **Net income from interest, fees and commissions, net revenues from operations with financial assets.**

The net interest income for 2019 is 9 501 thousand and is formed by interest income in the amount of BGN 10 985 thousand and interest expenses in the amount of BGN 1 484

thousand. Interest on loans and receivables makes up the larger portion of interest income, while interest on deposits from customers other than credit institutions makes up the larger portion of interest expenses.

- **Net income from fees and commissions**

The net income from fees and commissions in 2019 amounts to BGN 3 709 thousand, with revenues amounting to BGN 4 656 thousand and the expenses amounting to BGN 947 thousand. Tax and commission revenue is formed by bank transfers, cash transactions, loan servicing, electronic card transactions, securities transactions, mutual fund management income, investment consulting and more.

- **Net revenues from financial assets operations**

Net income from securities and foreign exchange transactions in 2019 amounted to BGN 2 487 thousand. These revenues were formed from transactions with shares of financial institutions, non-financial institutions and other clients and transactions with bonds issued by the Bulgarian Government and trading companies. This revenue group also includes the result from foreign exchange transactions. For 2019, net income from foreign exchange trading is BGN 381 thousand.

- **Net income from operations with financial assets at fair value through other comprehensive income**

In 2019, income from operations with financial assets, measured at fair value through other comprehensive income, amounted to BGN 369 thousand. Mainly these revenues are formed from the sale of government securities issued by the Government of the Republic of Bulgaria.

- **Net revenue from exchange rate changes**

In 2019 a negative effect of changes in the exchange rates in the amount of BGN 9 thousand was reported.

- **Other operating expenses, net**

In 2019, the Bank generated other operating income in the amount of BGN 499 thousand. The major part of this income consists of rental income, remuneration under contracts for an insurance agent, bondholder, jubilee coin sales and other services. In 2019, the Bank reported other operating expenses in the amount of BGN 2 044 thousand.

- **Change in the fair value of investment property**
For 2019 the Bank reported a positive net revaluation effect from investment property in the amount of BGN 643 thousand.

- **Impairment for uncollectability of financial assets**

The net result of impairments for uncollectability in 2019 is income from reintegrated impairments of BGN 489 thousand, this value is formed by income from reintegrated impairments of financial assets at fair value through other comprehensive income of 35 thousand BGN and income from reintegrated impairment of loans and advances to customers in the amount of BGN 454 thousand

- **General and administrative operating expenses and depreciation expenses**

The administrative expenses for the Bank's activities in 2019 amount to BGN 12 224 thousand and the depreciation expenses amount to BGN 3 499 thousand.

- **Expenses on provisions**

Revenues at the amount of BGN 16 thousand are reintegrated in provisions for off-balance sheet commitments.

XII. INFORMATION ON SIGNIFICANT TRANSACTIONS

In 2019, the Bank did not enter into major transactions that are essential to its business.

XIII. INFORMATION ABOUT TRANSACTIONS CONCLUDED BY AND BETWEEN „TEXIM BANK“ AD AND RELATED PARTIES DURING THE REPORTING PERIOD, PROPOSALS FOR SUCH TRANSACTIONS AND TRANSACTIONS BEYOND ITS NORMAL BUSINESS OR MATERIALLY DEVIATING FROM THE MARKET CONDITIONS UNDER WHICH „TEXIM BANK“ AD OR ITS SUBSIDIARY IS INVOLVED, INCLUDING INDICATION OF THE VALUE OF THE TRANSACTIONS, THE NATURE OF THE RELATIONSHIP AND ANY INFORMATION NECESSARY TO ASSESS THE IMPACT ON THE ISSUER'S FINANCIAL POSITION

As at 31 December 2019 and 2018, the Bank has receivables from and payables to related parties as follows:

Related parties and balances	Balance as at 31.12.2019	Balance as at 31.12.2018
Subsidiaries		
Deposits received	280	191
Key management personnel		
Loans granted	243	318
Deposits received	791	815

The revenues and expenses realized by the Bank in 2019 and 2018 from related party transactions are as follows:

Related parties and types of transactions	For the year ended 31.12.2019	For the year ended 31.12.2018
Subsidiaries		
Revenue from services	46	-
Revenues from fees	1	-
Key management personnel		
Revenues from interest	11	19
Expenses on interest	2	2
Revenues from fees	2	3

In 2019, the Bank carried out transactions with related parties by extending loans, attracting cash, etc. All related party transactions were carried out under normal trading conditions in the ordinary course of business of the Bank and did not differ from the market conditions. The authorization of the credit transactions was made after the credit risk analysis and assessment, subject to the requirements for collateral liquidity and sufficiency and the Bank's internal regulatory framework.

The key personnel of the Bank consist of the members of the Management Board, including executive directors directly involved in corporate governance, and members of the Supervisory Board who exercise control on the business and make important decisions on the Bank's development.

The remunerations of the members of the Supervisory Board paid in 2019 amounted to BGN 256 thousand. The remunerations of the members of the Management Board paid in 2019 amounted to BGN 436 thousand.

XIV. INFORMATION ABOUT EVENTS AND INDICATORS UNUSUAL FOR „TEXIM BANK“ AD, HAVING SIGNIFICANT IMPACT ON THE BANK'S OPERATIONS AND ITS REVENUES AND EXPENSES. ASSESSMENT OF THEIR IMPACT ON THE PERFORMANCE IN THE CURRENT YEAR

During the year there were no events and indicators that are considered unusual for the bank and with a significant impact on its operations.

XV. INFORMATION ABOUT OFF-BALANCE SHEET TRANSACTIONS – NATURE AND BUSINESS PURPOSE, INDICATION OF THE FINANCIAL IMPACT OF THE TRANSACTIONS ON THE BUSINESS IF THE RISK AND BENEFITS OF THOSE TRANSACTIONS ARE MATERIAL FOR „TEXIM BANK“ AD AND IF THE DISCLOSURE OF SUCH INFORMATION IS MATERIAL FOR THE ASSESSMENT OF THE FINANCIAL SITUATION OF „TEXIM BANK“ AD

The off-balance sheet commitments on bank guarantees issued in BGN amounted to BGN 6 132 thousand. The unutilized commitments under contracted loans and overdrafts (including corporate and retail credits) as at 31 December 2019 amounted to BGN 11 562 thousand compared to BGN 8 361 thousand at the end of 2018.

XVI. INFORMATION ABOUT SHAREHOLDINGS OF „TEXIM BANK“ AD, ITS MAIN INVESTMENTS IN THE COUNTRY AND ABROAD (IN SECURITIES, FINANCIAL INSTRUMENTS, INTANGIBLE ASSETS AND REAL ESTATE) AS WELL AS INVESTMENTS IN EQUITY SECURITIES BEYOND ITS ECONOMIC GROUP AND THE SOURCES. METHODS OF FINANCING

The financial instruments held by „Texim Bank“ AD as at 31 December 2019 include government bonds, corporate bonds, shares and stocks, with total value of BGN 67 253 thousand, classified in following groups: at fair value through profit or loss, at fair value through other comprehensive income and debt instruments at amortised cost.

As at 31 December 2019 „Texim Bank“ AD held government securities issued by the Government of the Republic of Bulgaria for a total amount of BGN 19 082 thousand.

As of 31 December 2019, "Texim Bank" AD holds securities issued by foreign governments in the amount of BGN 3 083 thousand.

Corporate bonds of Bulgarian and foreign issuers as at the end of 2019 amount to BGN 17 969 thousand, while the shares and stocks in enterprises as well as investments in collective investment schemes owned by the Bank amount to BGN 27 119 thousand.

As at 31 December 2019 the subsidiaries do not hold shares of the Bank.

XVII. INFORMATION ABOUT THE LOAN AGREEMENTS CONCLUDED BY „TEXIM BANK“ AD, ITS SUBSIDIARY OR PARENT COMPANY IN THEIR CAPACITY AS BORROWERS, INDICATING THE TERMS AND CONDITIONS SET THEREIN, INCLUDING THE DEADLINES FOR REPAYMENT, AND INFORMATION ABOUT THE GUARANTEES PROVIDED AND COMMITMENTS ASSUMED

Deposits from clients other than credit institutions amount to BGN 320 951 thousand, incl. BGN 157 392 thousand deposits of individuals and households - residents and non-residents and BGN 3 305 thousand liabilities under lease contracts.

There are no liabilities under securities redemption agreements.

XVIII. INFORMATION ABOUT THE LOAN AGREEMENTS CONCLUDED BY „TEXIM BANK“ AD, ITS SUBSIDIARY OR PARENT COMPANY IN THEIR CAPACITY AS BORROWERS, INCLUDING PROVISION OF GUARANTEES OF ANY KIND, INCLUDING TO RELATED PARTIES, INDICATING THE TERMS AND CONDITIONS SET THEREIN, INCLUDING THE DEADLINES FOR REPAYMENT AND THE PURPOSE FOR WHICH THEY WERE GRANTED

All loans are active and concluded in accordance with the Bank's internal regulatory framework and in compliance with the liquidity and sufficiency requirements laid down in the Rules for lending Operations of „Texim Bank“ AD.

XIX. INFORMATION ON THE USE OF THE FUNDS FROM THE NEW ISSUE OF SECURITIES DURING THE REPORTING PERIOD

In 2019 there was no new issue of shares of the Bank.

XX. ANALYSIS OF THE RATIO BETWEEN THE FINANCIAL PERFORMANCE ACHIEVED AS DISCLOSED IN THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR AND THE PREVIOUSLY PUBLISHED ESTIMATES OF THIS PERFORMANCE

In the annual Management Report for 2019, the Bank has not published specific forecasts for its development and therefore did not report a ratio between the forecasts made and the results achieved.

XXI. ANALYSIS AND ASSESSMENT OF THE FINANCIAL RESOURCES MANAGEMENT POLICY, INDICATING THE POSSIBILITIES FOR SERVICING THE LIABILITIES, THE POSSIBLE THREATS AND THE MEASURES THAT „TEXIM BANK“ AD HAS TAKEN OR IS ABOUT TO TAKE WITH A VIEW TO THEIR ELIMINATION

The Bank manages its assets in accordance with the effective legislation and the internal regulatory framework. The Bank serves all its obligations in due time and maintains a high degree of liquidity.

The liquidity risk arises from the inconsistency between the maturity of assets and liabilities and the lack of sufficient funds to meet the Bank's payments on current financial liabilities, as well as to provide funds to finance the increase in the financial assets and the potential off-balance sheet claims. The liquidity risk is subject to analysis and control by the Asset and Liability Management Committee. The main sources of funds for the Bank are deposits and other borrowed funds. For 2019 there were no indicators of the Bank for increased risk, regulated in the Liquidity Risk Management Rules. Liquidity Reports (in normal banking environment and under the Liquidity Crisis Scenario) were prepared periodically pursuant to the Internal Rules.

The preventive function in the liquidity risk management is expressed in the daily liquidity monitoring and management, maintaining sufficient availability of high-quality liquid assets to secure any inconsistencies between incoming and outgoing cash flows, analysis of inconsistencies between incoming and outgoing cash flows by maturity intervals, both in a normal banking environment and under conditions of crisis.

The Bank follows the obligations and constraints arising from the Credit Institutions Act, the European legislation and Ordinance 11 of the BNB on the bank liquidity

management and supervision. A quantitative indicator of liquidity risk according to the BNB regulations is the liquid asset ratio, expressing the ratio of liquid assets (cash in hand and in accounts with the BNB, not pledged government securities of the Republic of Bulgaria and debt securities meeting the requirements for liquid assets under Article 8 of Ordinance 11 of the BNB, deposits with financial institutions with a term of up to 7 days) to the Bank's borrowed funds. The Bank traditionally maintains a large volume of highly liquid assets – cash in hand and in accounts with the BNB – which allows it to meet its liquidity needs seamlessly. As an additional instrument for ensuring high liquidity, the Bank uses the provided resources and advances of financial institutions. These are basically deposits in first-class international and Bulgarian financial institutions with a maturity of up to 7 days. The Bank is able to meet all its needs for payments on matured financial liabilities.

XXII. ASSESSMENT OF THE POSSIBILITIES FOR REALIZATION OF THE INVESTMENT INTENTIONS, SPECIFYING THE AMOUNT OF THE AVAILABLE FUNDS AND INDICATING THE POSSIBLE CHANGES IN THE FINANCING STRUCTURE OF THIS ACTIVITY

The Bank will finance its operations in 2020 with its own resources and attracted resources. The Bank has sufficient free equity within the meaning of EU Regulation No 575 in order to fulfill its intentions to expand. In 2020, we expect the issuance of BGN 22 million convertible corporate bonds, with the purpose of taking steps to approve the relevant documents / prospectus for initial public offering and admission to trading on a regulated market of 22 000 ordinary, dematerialized, registered, interest - bearing, freely transferable, unsecured, convertible corporate bonds with a nominal value of BGN 1 000 for a total amount of BGN 22 000 000.

XXIII. INFORMATION ABOUT CHANGES DURING THE REPORTING PERIOD OCCURRING IN THE CORE PRINCIPLES OF GOVERNANCE OF „TEXIM BANK“ AD AND ITS GROUP COMPANIES

In 2019 there were no changes in the Bank's core principles of governance. The Bank's governance principles are in line with European frameworks and internationally recognized standards for best corporate governance.

XXIV. INFORMATION ABOUT THE MAIN FEATURES OF THE INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM APPLIED BY „TEXIM BANK“ AD IN THE PROCESS OF PREPARING THE FINANCIAL STATEMENTS

Internal control and audit

A Specialized Internal Audit Unit (SIAU) has been set up and functions at „Texim Bank“ AD. The SIAU is an independent structural unit in the system of „Texim Bank“ AD, subordinate to the Supreme Body – the General Meeting of Shareholders and in the cases where it does not meet – to the Supervisory Board. The SIAU performs the internal audit at the Bank, which is one of the main elements of the internal control system.

The mission of the SIAU is to provide the Bank's Management with independent, objective and impartial assessments of the risks and the control responses associated with the management, operations and information systems in relation to: strategy, reliability and integrity of financial and operational information; efficiency and effectiveness of operations, including asset protection; compliance with laws, regulations and internal instruments and contracts.

The internal audit covers all aspects of the Bank's operations – review of the risk management procedures, the internal control systems, the information systems and the management processes.

The SIAU carries out its activities in accordance with the Annual Audit Plan. The Annual Audit Plan is developed and updated on a risk-based methodology, which is to be evaluated at least once a year. The SIAU's activity includes periodic transaction checks, review of the compliance with the best banking practice, the compliance with the regulatory requirements, proposals to introduce preventive measures to prevent and detect fraud.

XXV. INFORMATION ABOUT CHANGES IN THE MANAGEMENT AND SUPERVISORY BODIES DURING THE REPORTING FINANCIAL YEAR

In 2019 there were no changes in the management and supervisory bodies of „Texim Bank“ AD.

XXVI. INFORMATION ABOUT THE AMOUNT OF REMUNERATION, REWARDS AND/OR BENEFITS OF EACH MEMBER OF THE MANAGEMENT AND SUPERVISORY BODIES FOR THE REPORTING FINANCIAL YEAR, PAID BY „TEXIM BANK“ AD, REGARDLESS OF WHETHER THEY WERE INCLUDED IN THE EXPENSES OF „TEXIM BANK“ AD OR RESULTED FROM THE PROFIT ALLOCATION, INCLUDING:

- a) amounts received and non-monetary remuneration;
- b) contingent or deferred remunerations incurred during the year, even if the remuneration is due at a later stage;
- c) amount payable by „Texim Bank“ AD or its subsidiaries for payment of pensions, retirement compensations or similar benefits.

The total amount of the remuneration received by the members of the Management Board and the Supervisory Board of „Texim Bank“ AD for the financial year 2019 is as follows:

Supervisory Board	BGN 255 825.00
Management Board	BGN 436 483.05
Total:	BGN 692 308.05

Remuneration paid to the members of the Supervisory Board (SB) and the Management Board (MB) in 2019:

SUPERVISORY BOARD			
1	Apostol Apostolov	SB Chairperson	54 000.00
2	Milen Markov	SB Deputy Chairperson	54 000.00
3	Veselin Morov	SB Member	54 000.00
4	Petar Hristov	SB Member	54 000.00
5	Ivelina Shaban	SB Member	39 825.00
MANAGEMENT BOARD			
1	Iglika Logofetova	MB Chairperson	42 000.00
2	Ivaylo Donchev	MB Deputy Chairperson and Executive Director	171 600.00
3	Maria Vidolova	MB Member and Executive Director	84 000.00
4	Temelko Stoychev	MB Member and Executive Director	96 883.05
5	Dimitar Zhilev	MB Member	42 000.00

No non-monetary remuneration was received during the year. There are no contingent or deferred remuneration that occurred during the year. There are no amounts payable by the Bank for payment of pensions, retirement compensations or similar benefits.

XXVII. INFORMATION ABOUT THE REMUNERATIONS AND SERVICES PROVIDED BY THE AUDITORS

The annual individual and consolidated financial statements of the Bank for 2019 have been audited by "Grant Thornton" OOD and "RSM BG" OOD (selected by decision of the GMS on 03.07.2019). The company "Grant Thornton" OOD is headquartered in Sofia, 26 Cherni vrah Blvd. The company is a member of the Institute of Certified Public Accountants in Bulgaria (IDES), registered as an audit company under Reg. 32. The registered auditor in charge of the 2019 audit is Sylvia Borislavova Dinova with personal ID number 0737 in IDES.

The company "RSM BG" OOD is headquartered in Sofia, 9 Fritiof Nansen Blvd., fl. 7. The company is a member of the Institute of Certified Public Accountants in Bulgaria (IDES). The company is registered in IDES as an audit company under Reg. No. 173. The registered auditor responsible for the certification of the financial statement for 2019 audited by "RSM BG" OOD is Mariana Petrova Mihailova with personal registration number 203 in IDES.

The fee for the mandatory independent financial audit of the separate and consolidated financial statements of "Texim Bank" AD for the period ended 31 December 2019 is BGN 155 thousand excluding VAT, which includes the remuneration of the two audit firms.

Other non-statutory financial audit services provided by the two audit firms include a commitment to perform agreed upon procedures in connection with the implementation of Ordinance No. 10 of the Bulgarian National Bank on Internal Control of Banks for the period 1 January - 31 December 2019, the remuneration for which is a total of BGN 10 thousand for both audit firms.

In 2019, and as of the date of this report, no tax consultations were conducted by the two audit firms - "Grant Thornton" OOD and "RSM BG" OOD.

XXVIII. INFORMATION ABOUT THE SHARES OF „TEXIM BANK“ AD HELD BY THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES, PROCURATORS AND SENIOR MANAGEMENT, INCLUDING THE SHARES HELD BY EACH OF THEM SEPARATELY AND AS A PERCENTAGE OF THE SHARES OF EACH CLASS, AS WELL AS THE OPTIONS PROVIDED TO THEM BY „TEXIM BANK“ AD ON ITS SECURITIES – TYPE AND SIZE OF THE SECURITIES ON WHICH THE OPTIONS ARE SET, PRICE OF THE EXERCISE OF OPTIONS, PURCHASE PRICE, IF ANY, AND MATURITY OF THE OPTIONS

The shares acquired, held and transferred by the members of the Management Board and the Supervisory Board of „Texim Bank“ AD are as follows:

	Full name	Title	Number of shares of „Texim Bank“ AD held as at 1 January 2019	Number of shares of „Texim Bank“ AD acquired in 2019	Number of shares of „Texim Bank“ AD transferred in 2019	Number of shares of „Texim Bank“ AD held as at 31 December 2019
1	Maria Petrova Vidolova	MB Member	569	0	0	569

The other members of the Management Board and the Supervisory Board of „Texim Bank“ AD did not held, acquire or transfer shares of the Company in 2019.

INFORMATION UNDER ART. 247(2)(4) OF THE COMMERCE ACT

Interest of the members of the Management Board and the Supervisory Board of „Texim Bank“ AD in companies as unlimited responsible shareholders. Shareholding of more than 25% of the capital. Participation in the management of other companies

NAME	Shareholding of more than 25% of the capital of other companies	Participation in the management of other companies or cooperatives as procurators, managers or board members
APOSTOL APOSTOLOV	<ul style="list-style-type: none"> - Sole Proprietor of the capital of “Ala Consult” EOOD, UIC 201125806; - Sole Proprietor of the capital of “Energreen” EOOD, UIC 202080520; - Partner at Studio Seven Hills OOD, UIC 202184056; - Partner at „Kuadra“ AD, UIC 175238931. 	<ul style="list-style-type: none"> - Chairperson of the Supervisory Board of „Texim Bank“ AD, UIC 040534040; - Chairperson of the Board of Directors of “Central Depository” AD, UIC 121142712; - Manager of “Ala Consult” EOOD, UIC 201125806; - Manager of “Energreen” EOOD, UIC 202080520; - Chairperson of the Board of Trustees and President of the University of Finance, Business and Entrepreneurship, BULSTAT: 131191259; - Member of the Supervisory Board of CEZ Distribution Bulgaria AD, UIC: 130277958; - Member of the Board of Directors of the "Bulgarian association of investment bankers", UIC 205034503.
MILEN MARKOV	<ul style="list-style-type: none"> - Partner at “ELBA PROPERTIES” OOD, UIC 201530014 (not operating); - Sole Proprietor of the capital of “MTM EOOD”, UIC 130604776 (not operating). 	<ul style="list-style-type: none"> - Deputy Chairperson of the Supervisory Board of „Texim Bank“ AD, UIC 040534040; - Chairperson of the Board of Directors and Chief Executive Officer of Pension Insurance Company “SAGLASIE” AD, UIC 831284154; - Chairperson of the Board of Directors of Life Insurance Company “Saglasie” EAD, UIC 175247407; - Chairperson of the Board of Directors of “Saglasie Insurance” AD, UIC 200339643; - Bulgarian Association of Supplementary Pension Insurance Companies, BULSTAT: 121696590 - Member of the Management Board; - "Guarantee Fund" with BULSTAT: 121446665 - Member of the Management Board.

<p>PETAR HRISTOV</p>	<ul style="list-style-type: none"> - “Mega Trans” AD, UIC: 121281886; - “Albatros 1” OOD, UIC: 102068620; - “Profayer” OOD, UIC: 124615729; - “Chaika Property Management” OOD, UIC: 148100367. 	<ul style="list-style-type: none"> - Member of the Supervisory Board of „Texim Bank“ AD, UIC 040534040; - Executive Director and member of the Board of Directors of “Mega Trans” AD, UIC: 121281886.
<p>VESELIN MOROV</p>	<p>No holdings</p>	<ul style="list-style-type: none"> - Member of the Supervisory Board of „Texim Bank“ AD, UIC 040534040; - Member of the Supervisory Board of “Holding Varna” AD, UIC: 103249584; - Member of the Board of Directors and Executive Director of “Real Finance” AD, UIC: 121746470; - Member of the Supervisory Board of “Sv. Sv. Konstantin I Elena Holding” AD, UIC: 813194292.
<p>IVELINA SHABAN</p>	<p>No holdings</p>	<ul style="list-style-type: none"> - Member of the Supervisory Board of „Texim Bank“ AD, UIC 040534040; - Member of the Board of Directors and Executive Director of “Real Finance Asset management” AD, UIC: 148083754; - Member of the Board of Directors and Executive Director of “Holding Varna” AD, UIC 103249584; - Procurator of “Real Finance” AD, UIC: 121746470; - Member of the Board of Directors and Executive Director of “Sv. Sv. Konstantin I Elena Holding” AD, UIC: 813194292; - Member of the Board of Directors and Executive Director of “Kamchiya” AD, UIC: 813109192; - Member of the Board of Directors of “Balchik Logistic Park” EAD, UIC: 203817664; - Manager of “Pamporovo Property” EOOD, UIC: 200886790; - Manager of “Park Build” EOOD, UIC: 131577613.

IGLIKA LOGOFETOVA	<ul style="list-style-type: none"> - Logofetova & Partners Law Firm, a partnership registered under the Obligations and Contracts Act, UIC 131457820; - Sole Proprietor of the capital of Ipsilon Aktivi EOOD, UIC 203420470. 	<ul style="list-style-type: none"> - Chairperson of the Management Board of „Texim Bank“ AD, UIC 040534040; - Chairperson of the Board of Directors of Texim Asset Management EAD, UIC 175027521; - Managing Partner of Logofetova & Partners Law Firm, a partnership registered under the Obligations and Contracts Act, UIC 131457820.
IVAYLO DONCHEV	<ul style="list-style-type: none"> - Sole Proprietor holding 100% and Manager of VIT MD EOOD, UIC 203613569 	<ul style="list-style-type: none"> - Deputy Chairperson of the Management Board and Executive Director of „Texim Bank“ AD, UIC 040534040; - Manager of “Teksim Proekti” EOOD, UIC 204607932; - Manager of "VIT MD" EOOD, UIC 203613569.
MARIA VIDOLOVA	No holdings	<ul style="list-style-type: none"> - Executive Director and Member of the Management Board of „Texim Bank“ AD, UIC 040534040.
DIMITAR ZHILEV	Partner at Central Vacum Systems Ltd, UIC 200631195.	<ul style="list-style-type: none"> - Member of the Management Board of „Texim Bank“ AD, UIC 040534040; - Member of the Supervisory Board of “BM Leasing” EAD, UIC: 131072664; - Deputy Chairperson of the Board of Directors and representative of “Concord Asset Management” AD, UIC 131446496.

Within the meaning of Article 240b of the Commerce Act, the members of the Management Board and the Supervisory Board of „Texim Bank“ AD and their related parties did not enter into contracts in 2019 that go beyond the normal operations of the Bank or substantially deviate from the market conditions.

XXIX. INFORMATION ABOUT THE ARRANGEMENTS KNOWN TO „TEXIM BANK“ AD (INCLUDING AFTER THE END OF THE FINANCIAL YEAR), RESULTING IN CHANGES IN THE RELATIVE SHAREHOLDINGS OF BONDHOLDINGS OF CURRENT SHAREHOLDERS OR BONDHOLDERS MAY OCCUR IN THE FUTURE

„Texim Bank“ AD has no information on arrangements (including after the end of the financial year), resulting in changes in the relative shareholdings of current shareholders may occur in the future.

XXX. INFORMATION ABOUT PENDING COURT, ADMINISTRATIVE OR ARBITRATION PROCEEDINGS CONCERNING LIABILITIES OR RECEIVABLES OF „TEXIM BANK“ AD AMOUNTING TO AT LEAST 10% OF ITS EQUITY; IF THE TOTAL VALUE OF THE LIABILITIES OR RECEIVABLES OF „TEXIM BANK“ AD IN ALL INITIATED PROCEEDINGS EXCEEDS 10 % OF ITS EQUITY, INFORMATION SHOULD BE SUBMITTED FOR EACH PROCEEDING SEPARATELY

„Texim Bank“ AD has no pending court, administrative or arbitration proceedings concerning liabilities or receivables of the Bank equal to or exceeding 10 percent of its equity. The total value of the liabilities or receivables of the Bank in all initiated proceedings does not exceed 10 per cent of its equity.

XXXI. DATA ON THE INVESTOR RELATIONS DIRECTOR, INCLUDING TELEPHONE AND CORRESPONDENCE ADDRESS

Investor Relations Director is Irena Georgieva Ivanova, correspondence address: 117, Todor Aleksandrov Blvd., Sofia 1303, telephone: 02/903 55 05.

XXXII. CHANGES IN THE PRICE OF THE SHARES OF „TEXIM BANK“ AD

During the reporting year 2019 the shares of „Texim Bank“ AD were traded on a regulated market and the prices of the shares were subject to fluctuations.

XXXIII. STRUCTURE OF THE COMPANY'S CAPITAL, INCLUDING SECURITIES NOT ADMITTED TO TRADING ON A REGULATED MARKET IN THE REPUBLIC OF BULGARIA OR ANOTHER MEMBER STATE, INDICATING THE DIFFERENT CLASSES OF SHARES, RIGHTS AND OBLIGATIONS PERTAINING TO EACH CLASS OF SHARES, AND THE SHARE OF THE TOTAL CAPITAL WHICH MAKES UP EVERY SINGLE CLASS

„Texim Bank“ AD is a public company with shares listed on the Bulgarian Stock Exchange.

The share capital of „Texim Bank“ AD amounts to BGN 27 995 036 (twenty seven million nine hundred and ninety five thousand and thirty six), distributed in 27 995 036 (twenty seven million nine hundred and ninety five thousand and thirty six) ordinary registered dematerialized shares with a par value of BGN 1 (one) each.

XXXIV. RESTRICTIONS ON THE TRANSFER OF SECURITIES, SUCH AS RESTRICTIONS ON HOLDING OF SECURITIES OR REQUIREMENTS FOR APPROVAL BY THE COMPANY OR ANOTHER SHAREHOLDER

There are no restrictions on the transfer of the Bank's shares, nor the consent of the Bank or any other shareholder is required for that purpose. The Bank's shares can be transferred freely subject to the requirements of the applicable legislation.

XXXV. INFORMATION ON THE DIRECT AND INDIRECT HOLDING OF 5 PERCENT OR MORE OF THE VOTING RIGHTS IN THE COMPANY'S GENERAL MEETING, INCLUDING DETAILS OF THE SHAREHOLDERS, THE SIZE OF THEIR SHAREHOLDING AND THE METHOD IN WHICH THE SHARES ARE HELD

The individuals who, as at 31 December 2019, held directly and indirectly 5 or more than 5 per cent of the voting rights in the General Meeting of „Texim Bank“ AD are as follows:

	Name	UIC	% of capital as at 31/12/2019	% of capital as at 31/12/2018
1	“Web Finance Holding” AD	103765841	18,88%	18,88%
2	“Sila Holding” AD	112100237	8,93%	8,93%
3	Pension Insurance Company “Saglasie” AD	831284154	6,38%	6,38%
4	“Invest Capital” AD	831541734	5,17%	5,17%
5	“Etrade” AD	130301989	5,10%	5,10%
6	“Datamax” AD	831257470	4,94%	4,94%
7	“Datamax System Holding” AD	131466552	4,77%	4,77%

* As at 31 December 2019 „Datamax“ AD, „Datamax System Holding“ AD, „Etrade“ AD, in their capacity as related parties, held together 14.81% of the voting shares of the capital of „Texim Bank“ AD

XXXVI. DETAILS OF THE SHAREHOLDERS WITH SPECIAL CONTROL RIGHTS AND A DESCRIPTION OF THESE RIGHTS

The Bank has no shareholders with special control rights.

XXXVII. SYSTEM OF CONTROL OVER THE EXERCISE OF VOTING RIGHTS IN CASES WHERE THE COMPANY'S EMPLOYEES ARE ALSO ITS SHAREHOLDERS AND WHEN THE CONTROL IS NOT DIRECTLY EXERCISED BY THEM

No Bank's employees hold significant shareholding. The shares held by all employees of „Texim Bank“ AD are less than 0.0020%.

XXXVIII. LIMITATIONS ON VOTING RIGHTS SUCH AS LIMITATIONS ON THE VOTING RIGHTS OF SHAREHOLDERS WITH A CERTAIN PERCENTAGE OR NUMBER OF VOTES, DEADLINE FOR THE EXERCISE OF VOTING RIGHTS OR SYSTEMS WHERE, WITH THE COOPERATION OF THE COMPANY, THE FINANCIAL RIGHTS ATTACHED TO THE SHARES ARE SEPARATED FROM THE POSSESSION OF SHARES

There are no limitations on voting rights such as limitations on the voting rights of shareholders with a certain percentage or number of votes, deadline for the exercise of voting rights or systems where, with the cooperation of the Bank, the financial rights attached to the shares are separated from the possession of shares.

XXXIX. AGREEMENTS MADE BY AND BETWEEN SHAREHOLDERS WHICH ARE KNOWN TO THE COMPANY AND WHICH MAY RESULT IN LIMITATIONS ON THE TRANSFER OF SHARES OR VOTING RIGHTS

There are no agreements made by and between shareholders which are known to the Bank and which may result in limitations on the transfer of shares or voting rights.

XXXX. PROVISIONS ON THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE COMPANY'S MANAGEMENT BODIES AND ON THE AMENDMENTS AND ADDITIONS TO THE ARTICLES OF ASSOCIATION

According to Art. 42, para. 2, item 1 of the Articles of Association of the Bank, the Supervisory Board elects and dismisses the members of the Management Board.

According to Art. 42, para. 2, item 6, b. "e" of the Articles of Association the Supervisory Board approves the decisions of the Management Board on amendments to the Bank's Articles of Association, before submitting them for consideration by the General Meeting. According to Art. 23, item 1 of the Articles of Association the General Meeting of Shareholders decides on amendments and supplements to the Articles of Association of the Bank.

XXXXI. POWERS OF THE COMPANY'S MANAGEMENT BODIES, INCLUDING THE RIGHT TO TAKE DECISIONS FOR THE ISSUE AND REDEMPTION OF THE COMPANY'S SHARES

Extract from the Articles of Association of „Texim Bank“ AD regarding the powers of the Company's management bodies, including the right to take decisions for the issue and redemption of Company's shares:

Art. 15a. (new, adopted by a resolution of the General Meeting of Shareholders dated 03.07.2019) (1) Within 5 (five) years from the announcement in the Commercial Register of the amendments and supplements to this Statute, adopted by a resolution of the General Meeting of 03.07.2019, the Board of Directors may adopt resolutions to increase the Bank's capital by issuing new shares with a total par value for the whole period of up to BGN 22 000 000 (twenty two million), including the conversion into shares of issued converted bonds. The aforementioned decision is adopted unanimously by all members of the Management Board and approved by a unanimous decision of the Supervisory Board.

(2) In the decision to increase the capital, the Board of Directors shall determine the size and purpose of the increase; the number and type of new shares, their rights and privileges; the term and conditions for the transfer of the rights issued against the existing shares; terms and conditions for subscription of new shares; the amount of the issue value and the period for payment; the investment intermediary through which the subscription is realized; as well as any other parameters and circumstances necessary to effect the magnification. The decision is adopted unanimously by all members of the Management Board and approved by a unanimous decision of the Supervisory Board.

(3) In the cases of capital increase under para. 1 of this Article, the Management Board shall be empowered to adopt a decision to reflect in the Articles of Association of the Bank the changes in the capital and the number of shares as a result of the increase made. The aforementioned decision shall be adopted unanimously by all members of the Management Board and approved by a unanimous decision of the Supervisory Board.

Art. 36. (1) The Management Board shall manage and represent the Bank by deciding on all matters concerning the Bank within its scope of operations, except those which are within the exclusive competence of the General Meeting or the Supervisory Board – in accordance with the law and these Articles of Association.

(2) The Supervisory Board shall:

- a/ Arrange the implementation of the decisions of the General Meeting and the Supervisory Board;
- b/ Define the general guidelines and the Bank's business plan, to take decisions on the credit, interest rate, accounting, risk and risk management policies;
- c/ Open and close branches of the Bank;
- d/ Decide on the participation of the Bank in other companies in the country and abroad;

- e/ Decide on matters relating to the acquisition and management of real estate and property rights thereon;
- f/ Define the structure and positions of the Bank;
- g/ Prepare and propose to the General Meeting the annual report of the Bank;
- h/ Take decisions on any material change in the Bank's operations, significant organizational changes, as well as long-term cooperation that is essential for the Bank, or on the termination of such cooperation;
- i/ Perform all other functions assigned to it by the General Assembly or the Supervisory Board and the law.

(3) The decisions of the Management Board, in accordance with the Articles of Association and the law, shall have effect with respect to the Bank after their approval by the Supervisory Board. The decisions referred to in para. 2(h) require the prior consent of the Supervisory Board.

(4) The Management Board shall adopt rules of procedure for its work, which must be approved by the Supervisory Board.

(5) The Management Board shall report its operations to the Supervisory Board at least in every three months. The Management Board shall immediately notify the Chairperson of the Supervisory Board of any occurring circumstances that are material to the Company.

The Bank may acquire its own shares through redemption by the written permission of the BNB and subject to the other applicable provisions of the existing legislation.

XXXXII. SUBSTANTIAL AGREEMENTS OF THE COMPANY THAT ARE EFFECTIVE, ALTERED OR TERMINATED DUE TO A CHANGE IN THE CONTROL OF THE COMPANY IN THE COURSE OF A MANDATORY TENDER OFFER AND THE CONSEQUENCES THEREOF, UNLESS THE DISCLOSURE OF SUCH INFORMATION COULD CAUSE SERIOUS DAMAGE TO THE COMPANY; THE EXCEPTION UNDER THE PRECEDING SENTENCE SHALL NOT APPLY IN CASES WHERE THE COMPANY IS REQUIRED TO DISCLOSE THE INFORMATION BY THE LAW

„Texim Bank“ AD has not entered into significant contracts that are effective, altered or terminated due to a change in the control of the Bank in the course of a mandatory tender offer and the consequences thereof, unless the disclosure of such information could cause serious damage to the Company.

XXXXIII. AGREEMENTS ENTERED BY AND BETWEEN THE COMPANY AND ITS MANAGEMENT BODIES OR EMPLOYEES FOR THE PAYMENT OF COMPENSATION UPON TERMINATION OR DISMISSAL WITHOUT LEGAL BASIS OR UPON TERMINATION OF THE EMPLOYMENT RELATIONSHIP FOR REASONS RELATED TO TENDER OFFERING

There are no agreements entered by and between the Bank and its management bodies or employees for the payment of compensation upon termination or dismissal without legal basis or upon termination of the employment relationship for reasons related to tender offering.

Information on the implementation of the principles and recommendations of the National Corporate Governance Code in accordance with the "comply or explain" principle, including the information required under Article 100n (7) of the POSA, is presented in Appendix 1 to the annual Management Report of the Bank: Corporate Governance Statement.

IVAYLO DONCHEV
/EXECUTIVE DIRECTOR/

26 March 2020

MARIA VIDOLOVA
/EXECUTIVE DIRECTOR/



CORPORATE GOVERNANCE STATEMENT
UNDER ART. 100N, PARA 8 IN RELATION TO PARA 7, ITEM 1 OF
THE PUBLIC OFFERING OF SECURITIES ACT (POSA)

“Texim Bank” AD is the oldest private bank in the Republic of Bulgaria. The Bank is a joint-stock company registered in the Republic of Bulgaria in 1992 (by decision of Sofia City Court dated 14 September 1992, company case No. 24103/1992) licensed by the Bulgarian National Bank under license B-27 and by the decision of the Governing Council of BNB No. 248 dated 11.04.1997 for conducting bank transactions in the country and abroad, updated with orders of the Governor of the BNB No. 100-0570 from 23.12.1999; No. RD 22-0852 from 07.05.2007; RD 22-2268 from 16.11.2009. The Bank is registered with the Register of the Financial Supervision Commission under Reg. No. 03-161 dated 18.02.1998. By Order of the BNB Governor No RD22 - 1351 / 06.07.2012 the name of the Bank is changed to "Texim Bank" AD. By Order of the BNB Deputy Governor - 121456 / 21.07.2017, the issuance of electronic money is added to the Bank's principal activities. The Bank holds a universal license for conducting all types of banking transactions in the country and abroad and is entered in the register of FSC under Reg. No. 03-161. "Texim Bank" AD is a licensed investment intermediary under Permit No 277 / 01.10.1993 and No 248 / 11.04.1997 of the BNB. The Bank shall perform all services that may be provided by an investment intermediary referred to in Art. 5, para. 2 and 3 of the Markets in Financial Instruments Act (repealed) in accordance with Art. 6, para. 2 and 3 of the new Markets in Financial Instruments Act and holds an investment intermediary license as required by the Markets in Financial Instruments Act.

“Texim Bank” AD is a public company registered with the Commercial Register at the Registry Agency by a Decision dated 16.01.2013 and with the Register of Public Companies and Other Issuers, lead by the FSC by decision No. 81-PD dated 31.01.2013 within the meaning of Article 30(1)(3) of the Financial Supervision Commission Act (FSCA). By Protocol No. 8 dated 11 February 2013 of the Board of Directors of “BSE“ AD, „Texim Bank“ AD was admitted to trading shares on the BSE Main Market, “Standard” share segment.

„Texim Bank“ AD is a member of “BSE” AD, “Central Depository” AD, Banking Organization for Payments Initiated by Cards (BORIKA), The Bulgarian Association for Card Payment Security (BACPS); National Card Scheme, European Payments Council - SEPA Credit Transfer Scheme, "BANKSERVICE" AD, RINGS, a member of Visa Europe and MasterCard International, SWIFT, a direct participant in TARGET 2 through the TARGET 2 - BNB component. In August 2012 the Bank joined BISERA 7 - EUR payment system. „Texim Bank“ AD is a member of the Association of Banks in Bulgaria. The Bank is an agent of EasyPay, a registering body of "Infonotary" since 2011.

In accordance with the requirements of Article 43a and the following of Ordinance 2 of 17.09.2003 on the prospectuses for public offering and admission to trading on a regulated securities market and disclosure of information, as well as in conjunction with Article 100t (3) of the Public Offering of Securities Act, concerning the obligation to disclose to the public the information under Article 27 (1) of Ordinance 2, „Texim Bank“ AD discloses the regulated information to the public through the electronic media Infostock AD on their official website: www.infostock.bg.

I. INFORMATION UNDER ARTICLE 100N (8) (1) OF THE PUBLIC OFFERING OF SECURITIES ACT

The responsible management structures and employees of „Texim Bank“ AD carry out the management of the Bank strictly following the requirements and recommendations of the National Code of Corporate Governance (the Code). In compliance with the norms and recommendations set forth in the Commerce Act and the Public Offering of Securities Act and in accordance with the internationally recognized standards and principles, taking into account the changes in the regulatory and economic environment, the Management Board and the Supervisory Board of „Texim Bank“ AD manage independently and responsibly the Bank, following the established vision and strategic operational guidelines and monitoring the observance of the shareholders' interests.

„Texim Bank“ AD adheres to the National Corporate Governance Code, adopted by the National Corporate Governance Commission and approved as a Corporate Governance Code under Article 100n (7) (1) in conjunction with paragraph 8 (1) of the Public Offering of Securities Act (POSA) by Decision No. 461-KKU dated 30.06.2016. In its operations, the Bank complies with and applies the basic principles set out in the Corporate Governance Code.

II. INFORMATION UNDER ARTICLE 100N (8) (2) OF POSA

In its operations, the Bank complies with and applies the core principles set out in the Corporate Governance Code and believes that the effective implementation of the best corporate governance practices contributes to achieving sustainable growth and implementing the long-term goals of the Bank, as well as to establishing transparent and fair relationships with all stakeholders. The Bank applies, as appropriate, some of the recommendations laid down in the Corporate Governance Code, taking into account the objectives and strategy set.

1. Concerning Chapter I “Corporate Boards”. The competencies, rights and obligations of the members of the Management Board and the Supervisory Board are consistent with the statutory requirements, the articles of association and the standards of good professional and managerial practice. The functions and duties of the Management Board and the Supervisory Board are regulated in Articles 36, 37, 42 and 44 of the Bank's Articles of Association.

Management Board of the Bank. In accordance with legal requirements and the best corporate governance practice, the size and structure of the remuneration of the members of the Management Board take into account the responsibilities and the contribution of each member of the Management Board in the Bank's operations and performance; the ability to select and retain qualified and loyal members of the management bodies; the need to reconcile the interests of the members of the Management Board and the long-term interests of the Bank. The Bank has no established bonus or profit-based schemes as well as other incentive schemes for the members of the Management Board to be granted on the basis of performance evaluation criteria. The remuneration of the members of the Management Board is determined individually according to whether they are assigned representative functions as executive directors or not, as well as according to the duties and tasks assigned to them under management contracts, criteria for the amount of their remuneration, their loyalty obligations to the Company and the grounds for their dismissal.

Supervisory Board of the Bank. The Bank's Articles of Association do not contain an explicit limitation on the number of companies where the members of the Supervisory Board may hold management positions, but when choosing new members of the Supervisory Board, the Bank takes into account the engagement of the proposed persons and their ability to effectively carry out the tasks and duties to be assigned. The proposals for the appointment of new members of the Supervisory Board are made in compliance with the principles of conformity of the candidates' competence with the nature of the Bank's operations. The appointment of members of the Supervisory Board is only made after the prior approval by the BNB, in accordance with the requirements of the CIA and the applicable subordinate regulations. The rules for the appointment of members of the Supervisory Board are set out in the Bank's Articles of Association.

Pursuant to the Bank's Articles of Association (Article 41 (5)), the members of the Supervisory Board may be re-elected for further terms of office without restriction. The special requirements of the Credit Institutions Act for the persons proposed for members of the Supervisory Board apply for the bank, and these persons are subject to approval by the Bulgarian National Bank and therefore their frequent change is inappropriate for the sustainable and proper implementation of the long-term goals of the Bank.

2. Concerning Chapter III “Protection of Shareholders' Rights”. The Management Board and the Supervisory Board, while exercising their powers regulated by the Articles of Association, ensure the equal treatment of all shareholders, including minority and foreign shareholders, by protecting their rights and facilitating their exercise within the limits allowed by the effective legislation and in accordance with the provisions of the Company's Articles of Association. The Management of the Bank ensures that all shareholders are informed of their rights.

The General Meeting may be convened by an invitation, announced in the Commercial Register at least 30 days before the opening of the General Meeting. The invitation is posted on the Bank's website and disclosed to the FSC and the public under the terms and conditions and according to the procedure laid down in the POSA. From the announcement of the invitation to the date of the General Meeting, the materials of the session are available to the shareholders and their representatives.

The texts in the materials are specific and clear and not misleading to the shareholders. All proposals for major corporate events are presented as separate items on the agenda of the General Meeting, including the proposal for profit distribution.

The Management Board exercises effective control on the holding of the General Meeting, providing the necessary organization for the voting of shareholders and authorized persons in accordance with the instructions of the shareholders. The Management Board arranges the holding of the General Meeting and ensures the equal treatment of all shareholders and the right of each shareholder to express their opinion on the items on the agenda.

All shareholders are informed of the rules under which the general meetings of shareholders are convened and held, including the voting procedures. The corporate management provides sufficient and timely information on the date and venue of the general meeting as well as full information on the issues to be addressed and decided at the meeting. During the general meeting, the right of all shareholders to express their opinion and to ask questions are ensured. The Bank announces on its website the information about the holding of the General Meeting of Shareholders.

Given the above, at present the Bank has not provided the opportunity for remote participation in the GMS.

3. Concerning Chapter IV “Disclosure of Information”. The Bank complies with the best practices regarding the disclosure of information although no written policy has been formulated in this regard. Any change in the process of disclosure of information is authorized by the corporate management. Any significant periodic and incidental information is disclosed immediately upon the consideration of the need for its disclosure.

In 2019, no ethical issues have arisen between the members of the management and issues requiring the compliance with certain written procedures.

4. Concerning Chapter V “Stakeholders”. Despite the lack of written rules for the disclosure of information, the Bank recognizes that the effective interaction with the stakeholders has a direct impact on the corporate governance. The Bank identifies which stakeholders are related to its operations based on their degree and spheres of influence, role and attitude to its sustainable development and which in turn can influence its operations. Therefore, the Management Board, in each case of a transaction with a stakeholder within the meaning of Article 38 of the Corporate Governance Code, ensures the compliance with the recommendations under Chapter V of the Code.

III. INFORMATION UNDER ARTICLE 100N (8) (3) OF POSA

The Management Board of „Texim Bank“ AD provides and controls the establishment and functioning of a risk management system, including an internal control and audit system, promptly notifying the Supervisory Board in due time of its actions. The Company's Management Report is to be presented to the General Meeting of Shareholders.

A financial and information system has been established and operates in the Bank, ensuring the integrated functioning of the accounting and financial reporting systems.

A system of internal control is in place in „Texim Bank“ AD, which ensures the effective functioning of the systems for reporting and disclosure of information. The internal control system has been built and functions also in order to identify the risks accompanying the Bank's operations and to support their effective management.

A Specialized Internal Audit Unit (SIAU) has been set up and functions at „Texim Bank“ AD. The SIAU is an independent structural unit subordinate to the Supreme Body – the General Meeting of Shareholders and in the cases where it does not meet – to the Supervisory Board. The SIAU performs the internal audit at the Bank, which is one of the main elements of the internal control system. The internal audit ensures the effective functioning of the systems for reporting and disclosure of information. The SIAU carries out its activities in accordance with the Annual Audit Plan. The Annual Audit Plan is developed and updated on a risk-based methodology, which is to be evaluated at least once a year. The SIAU's activity includes periodic transaction checks, review of the compliance with the best banking practice, the compliance with the regulatory requirements, proposals to introduce preventive measures to prevent and detect fraud.

In accordance with the requirements of the effective legislation and pursuant to the criteria set out therein, the Supervisory Board approves the Management Board's proposal to the General Meeting of Shareholders of the Bank for the selection of an audit committee in a composition that meets the legal requirements and the specific needs of the Bank. The audit committee exercises the supervision on the internal audit activities and monitors the overall relationship with the external auditor. The audit committee acts in accordance with the established and approved Rules of Procedure.

**Corporate governance statement
under art. 100n, para.8 in relation to para. 7, item. 1 of POSA**

The audit committee prepares and submits an annual report on its activities to the Annual General Meeting of Shareholders.

Pursuant to the Credit Institutions Act (CI), the Annual Financial Statements of „Texim Bank“ AD on an individual and consolidated basis are subject to independent financial audit jointly by two audit firms that are registered auditors under the Independent Financial Audit Act.

The appointment of auditors must be coordinated in advance with the BNB by „Texim Bank“ AD.

The auditor's report provides conclusions about the circumstances regarding the reliable presentation of the Bank's material and financial position and the resulting financial performance. Based on a detailed audit review, the auditors express their opinion in relation to: the reliability of the internal control systems and the compliance of the annual financial statements and supervisory reports, prepared by the Bank, with the requirements of the Act and its implementing regulations.

In connection with the adopted Independent Financial Audit Act, the Extraordinary General Meeting of Shareholders of „Texim Bank“ AD, held on 03.07.2019 in order to jointly audit and certify the annual financial statements on an individual and consolidated basis of „Texim Bank“ AD for 2019 and the auditor's reports determined by the Bulgarian National Bank, appointed the auditing companies “Grant Thornton” OOD, and “RSM BG” OOD, to jointly perform the audit.

„Texim Bank“ AD has adopted and applies rules and procedures regulating the effective functioning of the systems for reporting and disclosure of information of the Bank. The rules describe in detail the different types of information created and disclosed by the Bank, the processes of the internal document flow, the different levels of access to the types of information of the persons responsible and the time limits for processing and managing the information flows.

The Bank has set up a structural unit - “Risk Analysis and Management” department, responsible for identifying, analysing and managing the different types of risk. The established risk management system ensures the effective implementation of internal controls in the creation and management of all corporate documents, including the financial statements and other regulated information that the Bank is required to disclose in accordance with the legal regulations.

The main types of risks relevant to the Bank's operations and the associated management policy are stipulated in policies, rules and procedures for the overall identification, measurement, monitoring, management and control of all material risks to the Bank.

The risk management policy is applied in an integrated manner and in compliance with all other policies and principles stipulated in the internal regulations of „Texim Bank“ AD. The Bank's Risk Management Rules document the measures and procedures for establishing, managing and assessing the risks associated with its operations pursuant to Article 168 (1) (3) of the Financial Instruments Markets Act.

IV. INFORMATION PURSUANT TO ARTICLE 10 (1), (C), (D), (F), (H) AND (I) OF DIRECTIVE 2004/25/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 21 APRIL 2004 ON TAKE-OVER BIDS, IN COMPLIANCE WITH ARTICLE 100N (8) (4) OF POSA

The persons who as at 31.12.2019 held directly and indirectly 5 per cent or more of the voting rights at the General Meeting of „Texim Bank“ AD are as follows:

	Name	UIC	% of capital as at 31.12.2019	% of capital as at 31.12.2018
1	„Web Finance Holding“ AD	103765841	18,88%	18,88%
2	„Sila Holding“ AD	112100237	8,93%	8,93%
3	Pension Insurance Company „SAGLASIE“ AD	831284154	6,38%	6,38%
4	„Invest Capital“ AD	831541734	5,17%	5,17%
5	„Etrade“ AD	130301989	5,10%	5,10%
6	„Datamax“ AD	831257470	4,94%	4,94%
7	„Datamax System Holding“ AD	131466552	4,77%	4,77%

** As at 31.12.2019 „Datamax“ AD, „Datamax System Holding“ AD, „Etrade“ AD, in their capacity as related parties, held together 14.81% of the voting shares of the capital of „Texim Bank“ AD*

„Texim Bank“ AD has no shares that give special control rights.

There are no limitations on voting rights, such as limitations on the voting rights of shareholders with a certain percentage or number of votes, deadline for the exercise of voting rights or systems where, with the cooperation of the Company, the financial rights attached to the securities are separated from the holding of securities related to the shares issued by „Texim Bank“ AD.

The procedure and rules of appointment or change of members of the Management Board and the Supervisory Board, as well as amendments to the Articles of Association of the Bank are made in accordance with the provisions of the Articles of Association and the Bulgarian legislation;

The Bank may acquire its own shares through redemption by the written permission of the BNB and subject to the other applicable provisions of the existing legislation. The issuance of new shares is within the competence of the General Meeting of Shareholders of the Bank.

V. INFORMATION UNDER ARTICLE 100n (8) (5) OF POSA

The organizational structure of the Bank is established in accordance with the nature of its business, its shareholding structure, its legal form of organization and its risk profile.

The Bank is a joint-stock company with a two-tier management system. According to its Articles of Association, the management bodies of the Company are the General Meeting of Shareholders, the Supervisory Board (SB) and the Management Board (MB). The management of the Bank is carried out by the Management Board. The Bank is represented to third parties by the Executive Directors, members of the Management Board. The Supervisory Board carries out general supervision and preliminary, ongoing and ex-post control over the operations of the Management Board.

Management Board

The rules for the appointment of members of the Supervisory Board are set out in Article 42 (20 (1) of the Bank's Articles of Association.

The competencies, rights and obligations of the Management Board members are determined in compliance with the statutory requirements, the Bank's Articles of Association and the standards of good professional and managerial practice. The Management Board resolves all matters stipulated in the Article of Association and the applicable law and are not within the exclusive competence of the General Meeting or the Supervisory Board.

The Management Board of „Texim Bank“ AD coordinates its operations with the Supervisory Board regarding the Bank's business plan, the transactions of a substantial nature, as well as other activities as set out in its statutes.

The Management Board carries out its operations under the supervision of the Supervisory Board. As at 31.12.2019 the Management Board consists of 5 members elected by the Supervisory Board for a five-year term of office and may be substituted and re-elected without restriction and at any time by the Supervisory Board. The Management Board of „Texim Bank“ AD complies with the Code of Ethics, adopted by a record of the Board of Directors of November 2015.

The Management Board reports to the Supervisory Board on the Bank's operations and situation at least once every quarter.

The Rules of Procedure of the MB are regulated in the Regulations of its operation.

There are a number of committees in the Bank that are set up to support the Management Board. In their work, the committees comply with the requirements of the international standards, regulations and directives, as well as the national legislation and the internal regulations. The specialized committees of „Texim Bank“ AD are: Risk Committee; Asset and Liability Management Committee; Operational Risk Management Committee; Credit Board; Credit Committee.; Insider Information Committee and Organization and Management Committee for Recovery Plan Implementation.

Supervisory Board

The Supervisory Board of „Texim Bank“ AD consists of three to seven able-bodied natural persons elected by the General Meeting for a term of office of up to 5 years. The appointment of members of the Supervisory Board is only made after the prior approval by the BNB, in accordance with the requirements of the CIA and the applicable subordinate regulations. One person cannot be simultaneously a member of the Supervisory Board and the

Management Board of the Bank. In order to support its operations, the Supervisory Board may set up specialized committees and other supporting bodies.

The rules for the election of members of the Supervisory Board as well as the representatives of the legal persons, members of the Supervisory Board, are regulated in the Articles of Association of the Bank.

At least one third of the members of the Supervisory Board must be independent persons pursuant to the POSA.

As at 31.12.2019 the Bank's Supervisory Board consists of 5 natural persons who are elected by the General Meeting for a term of five years and can be re-elected without restriction.

The Supervisory Board shall not participate in the management of the Bank and shall only represent the Bank in its relations with the Management Board. In all cases where the law, the operating rules of the Supervisory Board or the current internal rules of the Bank so provide, the Supervisory Board gives prior authorization for the conclusion of certain transactions. The Supervisory Board may at any time require from the Management Board to present information or report on any matter that affects the Bank. The Supervisory Board may carry out the necessary investigations in the performance of its duties. For this purpose, it can assign experts.

The corporate management of the Bank /Supervisory Board and Management Board/ acts jointly in accordance with the adopted strategy and to the benefit of the shareholders and taking into account the interests of the stakeholders.

The corporate management of „Texim Bank“ AD is guided by its generally accepted principles of integrity and managerial and professional competence by treating all shareholders equally and acting in their interest.

VI. INFORMATION UNDER ARTICLE 100N (8) (6) OF POSA

In compliance with the requirements of Directive 2013/36/EU, the Management Board and the Supervisory Board of „Texim Bank“ AD exercise effective control and take decisions, including through the implementation of measures that guarantee the diversity of management. The Bank respects the principle of diversity, taking into account the specificities of its operations, in order to include a wide range of skills and competences, as well as to conduct constructive discussions; to maintain a balance between experience, professionalism, business knowledge, and independence and objectivity in expressing opinions and making decisions; to ensure representation in terms of age, gender, education, good reputation and professional experience with a view to the actual knowledge of the organization and functions of the Bank, given the complexity and specifics of the Bank's operations.

IVAYLO DONCHEV
/ EXECUTIVE DIRECTOR /

MARIA VIDOLOVA
/ EXECUTIVE DIRECTOR /



INDEPENDENT AUDITORS' REPORT

To the shareholders of Texim Bank AD
Sofia

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying separate financial statements of Texim Bank AD (the "Bank"), which comprise the separate statement of financial position as at 31 December 2019, and the separate statement of profit and loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its 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 (ISA). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the separate financial statements" section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independent Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="212 222 678 254">Impairment of loans and receivables</p> <p data-bbox="212 285 756 342">Notes 7 and 30 to the separate financial statements</p> <p data-bbox="212 407 756 674">Loans and receivables with a carrying amount of BGN 148,180 thousand represent a significant part of the Bank's assets as at 31 December 2019 (41%). The individual and collective impairment associated with expected credit losses amounts to BGN 2,629 thousand as of the same date as disclosed in note 7 of the accompanying separate financial statements.</p> <p data-bbox="212 709 756 999">Explanatory notes 3.1 "3.1 Accounting estimates and accounting assumptions", 3.2 "Significant sources of uncertainty", 30.1 "Credit risk" of the separate financial statements provide detailed information about the estimates and assumptions of the Bank's management in the formation of expected credit losses from the impairment of loans and receivables as at 31 December 2019.</p> <p data-bbox="212 1031 756 1329">Due to the significance of the Bank's loans and receivables and the need to apply significant judgement, estimates and assumptions by management in their classification and measurement, as well as the calculation of the expected credit losses according to the requirements of IFRS 9 "Financial Instruments", we concluded that determining the impairment of loans and receivables is a key audit matter.</p>	<p data-bbox="781 222 1398 254">Our audit procedures were focused on the following:</p> <ul style="list-style-type: none"> <li data-bbox="781 285 1455 464">- inquiries and obtaining an understanding of the processes, policies and criteria and models used by the Bank for the classification and subsequent reporting of loans and receivables, and analyzing the compliance of these criteria with the requirements of IFRS 9 "Financial Instruments". <li data-bbox="781 495 1455 617">- analysis of the adequacy of the policies, procedures and controls introduced on the classification processes, subsequent reporting and monitoring in terms of their compliance with IFRS and best practices in the sector. <li data-bbox="781 648 1455 709">- evaluating the design and implementation of controls, as well as their design and operating effectiveness. <li data-bbox="781 741 1455 1163">- review and assessment of the credit classification processes and the determination of the necessary impairment on a collective and individual basis by examining specific receivables from the loan portfolio on a sample basis in applying risk based approach and performed the details tests as part of the substantive procedures regarding the classification and value of the loans. We analysed the financial situation of the borrowers and we investigated whether there were any deviations in compliance with the contractual terms. We took into account the impact of economic conditions, the valuation of assets provided as collateral, and other factors that may affect the collection of loans and receivables verified on a sample basis. <li data-bbox="781 1194 1455 1528">- analysing the methodology and key assumptions used in applying the models of expected credit losses and calculating impairment for loans and receivables, incl. probability of default, loss in default, expected future cash receipts, discounted to its current value. We conducted an audit of the Bank's management's estimates of the expected credit losses on a collective and individual basis. We analysed the input data used on a sampling basis and performed alternative recalculations. We compared the results obtained with our expectations and estimates based on our professional judgment. <li data-bbox="781 1560 1455 1740">- we carried out an assessment of the adequacy of the disclosures in the separate financial statements, including the disclosures of the underlying assumptions and judgments relating to the effect of applying IFRS 9, the classification and impairment of the Bank's loans and receivables and credit risk.

Information other than the separate financial statements and Auditors' Report thereon

The Management Board of the Bank ("the Management") is responsible for the other information. The other information comprises the annual report on activities, and the corporate governance statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditors' report and to the extent it is specifically stated.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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 separate financial statements

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

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

The Supervisory Board and the Audit Committee of the Bank ("Those charged with governance") are responsible for overseeing the Bank's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA 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 separate financial statements.

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

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate 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 responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the IFAA, applicable in Bulgaria. In accepting and performing the joint audit engagement, in respect to which we are reporting, we have considered the Guidelines for performing joint audits, issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of the Registered Auditors in Bulgaria.

Report on other legal and regulatory requirements

Additional matters, required to be reported by the Accountancy Act and Public Offering of Securities Act

In addition to our reporting responsibilities according to ISA described in section "Information other than the separate financial statements and Auditor's Report thereon", with respect to the annual report on activities and the corporate governance statement, we have also performed the procedures required by the Guidelines on New and Expanded Auditor's Reports and Auditor's Communication of the Professional Organization of Chartered Accountants and Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, the form and the content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by Chapter Seven of the Accountancy Act and the Public Offering of Securities Act (art. 100m, para 10 of POSA in relation to art. 100m, para 8, p. 3 and 4 of POSA), applicable in Bulgaria.

Opinion under article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- The information included in the management report for the financial year for which the separate financial statements have been prepared, is consistent with the separate financial statements.
- The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of art. 100m, paragraph 7 of the Public Offering of Securities Act.
- The information required by Chapter Seven of the Accountancy Act and art. 100m, para 8 of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the separate financial statements have been prepared.

Information in accordance with art. 33 of Ordinance №38/2007 of the Financial Supervisory Commission (FSC) outlining the requirements for the activities of the investment intermediaries and art. 11 of Ordinance №58/2018 of FSC outlining the requirements for protection of clients' financial instruments and cash, management of products and the payment and receipt of fees, commissions and other cash and non-cash remuneration

Based on the performed audit procedures and the acquired understanding of the Bank's activities in the context and during the course of our audit of the separate financial statements as a whole, we have reached the conclusion that the established and applied organization for safe keeping of clients' assets complies with the requirements of art. 28-31 of Ordinance №38 of FSC and art. 3-10 of Ordinance №58 of FSC regarding the Bank's activity as an investment intermediary.

Opinion under art. 100m, para 10 in relation to art. 100m, para 8, p. 3 and 4 of the Public Offering of Securities Act

Based on the procedures performed during our audit and as a result of the acquired knowledge and understanding of the Bank and the environment in which it operates, acquired during our audit, in our opinion, the description of the main features of the Bank's internal control and risk management systems in relation to the financial reporting process as part of the annual report on activities (as element of the content of the corporate governance statement) and the information under Article 10 , paragraph 1, letter "c", "d", "e", "h" and "i" of the Directive 2004/25/EC of the European Parliament and of the EU Council of 21 April 2004 related to takeover bids, included in the corporate governance statement do not contain cases of material misrepresentations.

Additional reporting in relation to the audit of the separate financial statements under art 100m, para 4, p. 3 of the Public Offering of Securities Act

Reporting in relation to art. 100m, para 4, p. 3, l. "b" of the Public Offering of Securities Act

Information on related party transactions is disclosed in note 29 to the accompanying separate financial statements. Based on the procedures performed on related party transactions in the context of our audit of the separate financial statements as a whole, nothing has come to our attention indicating that the related party transactions are not disclosed in the accompanying separate financial statements for the year ended 31 December 2019, in all material respects, in accordance with the requirements of IAS 24 Related Party Disclosures. We have considered the results of our audit procedures on related party transactions in forming our opinion on the separate financial statements as a whole and not for the purpose of providing a separate opinion on the related party transactions.

Reporting in relation to art 100m, para 4, p. 3, l. "c" of the Public Offering of Securities Act

Our responsibilities for the audit of the separate financial statements described in section "Auditor's Responsibilities for the Audit of the separate financial statements" include evaluating whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair

presentation. Based on the procedures performed on the material transactions underlying the separate financial statements for the year ended 31 December 2019, nothing has come to our attention indicating any instances of material unfair presentation and disclosure under the applicable IFRS as adopted by the European Union. We have considered the results of our audit procedures on the material transactions underlying the separate financial statements in forming our opinion on the separate financial statements as a whole and not for the purpose of providing a separate opinion on these material transactions.

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.

- "Grant Thornton" OOD and "RSM BG" OOD were appointed as statutory auditors of the separate financial statements of the Bank for the year ended 31 December 2019 by the general meeting of shareholders held on 3 July 2019 for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended 31 December 2019 represents third total consecutive statutory audit engagement for the Bank carried out by "Grant Thornton" OOD and second statutory audit engagement for the Bank carried out by "RSM BG" OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Bank's audit committee, in compliance with the requirements of art. 60 of the Independent Financial Audit Act.
- No prohibited non-audit services referred to in art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.
- For the period covered by our statutory audit, other than the audit itself, we have not provided any other services to the Bank and its subsidiaries that are not specified in the Bank's management report or financial statements.

On behalf of Grant Thornton OOD

Silvia Dinova
Registered Auditor, responsible for the audit

Mariy Apostolov
Managing partner

Bulgaria, Sofia, 1421
26, Cherni vrah Blvd.

On behalf of RSM BG OOD

Mariana Mihaylova, PhD
Registered Auditor, responsible for the audit
Managing partner

Bulgaria, Sofia, 1142
8, Prof. Frityof Nansen str., floor 7



30 March 2020

TEXIM BANK AD

SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

All amounts are in thousand Bulgarian Leva, unless otherwise stated

	Note	As at 31.12.2019	As at 31.12.2018
ASSETS			
Cash and balances with the Central Bank	4	56,537	43,817
Financial assets at fair value through profit or loss	5	25,502	23,923
Financial assets at fair value through other comprehensive income	6	36,227	34,583
Credits and receivables, net	7	169,329	144,894
Receivables under repurchase agreements of securities	8	27,464	14,842
Debt instruments at amortized cost	9	5,524	5,597
Property, plant and equipment	11	19,945	14,363
Investment properties	12	13,752	9,235
Non-current assets	11	2,218	2,323
Investments in subsidiaries	13	451	451
Other assets	14	6,287	7,621
TOTAL ASSETS		363,236	301,649
LIABILITIES			
Deposits and loans from credit institutions	15	1,622	24,562
Deposits from customers other than credit institutions and lease liabilities	16	320,951	238,636
Tax liabilities	17	289	188
Other liabilities	18	1,952	1,698
Provisions	19	238	222
TOTAL LIABILITIES		325,052	265,306
EQUITY			
Share capital	20	27,995	27,995
Retained earnings/(accumulated loss)		298	159
Revaluation reserves	20	7,609	6,066
Legal reserves	20	2,150	1,991
Other reserves	20	132	132
TOTAL EQUITY		38,184	36,343
TOTAL LIABILITIES AND EQUITY		363,236	301,649

These separate financial statements were approved by the Management Board of Texim Bank AD on March 26, 2020.

Ivaylo Donchev
Executive Director

Maria Vidolova
Executive Director

Milena Parusheva
Chief Accountant

Audited according to the auditor's report dated 30 March 2019.

Grant Thornton Ltd.

Grant Thornton Ltd.

RSM BG Ltd.

Mariy Apostolov
Managing partner

Silvia Dimova
Registered auditor

Mariana Mihaylova
Registered auditor
Managing partner

The notes to the separate financial statements from pages 5 to 170 form an integral part of these financial statements.



TEXIM BANK AD

SEPARATE STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

All amounts are in thousand Bulgarian Leva, unless otherwise stated

	Note	The year ended 31.12.2019	The year ended 31.12.2018
Interest income	21	10,985	8,505
Interest expense	21	(1,484)	(771)
Net income from interest		9,501	7,734
Dividend income		742	231
Fee and commission income	22	4,656	3,848
Fee and commission expenses	22	(947)	(742)
Net fee and commission income		3,709	3,106
Net gains on financial assets at fair value through profit or loss	23	2,118	2,556
Net gains on financial assets at fair value through other comprehensive income	23	369	341
Net gains/(losses) on foreign currency revaluation		(9)	6
Net gains on assets written-off, other than assets for sale		22	261
Net gains on non-current assets classified as held for sale	24	1	1
Change in the fair value of investment property	12	643	429
Other operating expenses, net	25	(1,545)	(508)
Administrative expenses	26	(12,224)	(12,988)
Depreciation/amortization	11	(3,499)	(1,164)
Net income/(expenses) from impairment and uncollectability	27	489	281
Impairment of non-financial assets costs		(3)	-
Costs for provisions	19	(16)	(127)
PROFIT BEFORE TAXATION		298	159
Income tax	17	-	-
PROFIT FOR THE YEAR		298	159
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation reserve of non-financial assets		948	882
Income tax related to the revaluation of non-financial assets		(95)	(88)
Changes in the fair value of equity instruments at fair value through other comprehensive income		424	27
Items that may be reclassified subsequently to profit or loss:			
Changes in the fair value of debt instruments at fair value through other comprehensive income		266	(67)
OTHER COMPREHENSIVE INCOME		1,543	754
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,841	913
Earnings per share (in BGN)	28	0,011	0,005

These separate financial statements were approved by the Management Board of Texim Bank AD on March 26, 2020.

Ivaylo Donchev
Executive Director

Maria Vidolova
Executive Director

Milena Parusheva
Chief Accountant

Audited according to the auditor's report dated 30 March 2019.

Grant Thornton Ltd.

Grant Thornton Ltd.

RSM BG Ltd.

Mariy Apostolov
Managing partner

Silvia Dinova
Registered auditor

Mariana Mihaylova
Registered auditor
Managing partner

The notes to the separate financial statements from pages 5 to 70 form an integral part of these financial statements.



TEXIM BANK AD

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2019

All amounts are in thousand Bulgarian Leva, unless otherwise stated

	Share capital	Revaluation reserves	Legal reserves	Other reserves	Retained earnings/ (Accumulated loss)	Total
BALANCE AS AT 1 January 2018	27,995	5,312	1,967	132	24	35,430
Profit for the year	-	-	-	-	159	159
Other comprehensive income	-	754	-	-	-	754
Total comprehensive income	-	754	-	-	-	754
Increase of legal reserves with undistributed profit	-	-	24	-	(24)	-
BALANCE AS AT 31 DECEMBER 2018	27,995	6,066	1,991	132	159	36,343
Profit for the year	-	-	-	-	298	298
Other comprehensive income	-	1,543	-	-	-	1,543
Total comprehensive income	-	1,543	-	-	-	1,543
Increase of legal reserves with undistributed profit	-	-	159	-	(159)	-
BALANCE AS AT 31 December 2019	27,995	7,609	2,150	132	298	38,184

These separate financial statements were approved by the Management Board of Texim Bank AD on March 26, 2020.

Ivaylo Donchev
Executive Director

Maria Adolova
Executive Director

Audited according to the auditor's report dated 30 March 2019

Grant Thornton Ltd

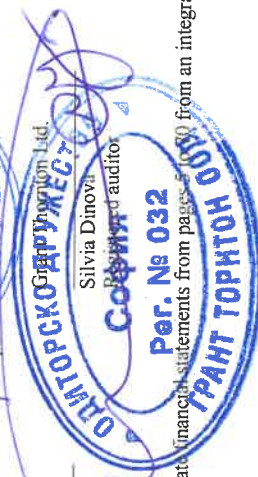
Mariy Apostolov
Managing partner

Silvia Dinova
Registered auditor

RSM BG Ltd.

Mariana Mihaylova
Registered auditor
Managing partner

Milena Parusheva
Chief Accountant



The notes to the separate financial statements from pages 5-80 from an integral part of these financial statements.

TEXIM BANK AD

SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

All amounts are in thousand Bulgarian Leva, unless otherwise stated

	Note	Year ended 31.12.2019	Year ended 31.12.2018
OPERATING ACTIVITIES			
Net profit		298	159
Adjustments for non-monetary items			
Depreciation/amortization	11	3,499	1,164
Allowances for impairment losses and uncollectability, net	27	(489)	(281)
Net result from revaluation of investment properties and assets held for sale	13, 25	(643)	(429)
Net result of operations with financial assets at fair value through other comprehensive income	23	(369)	(341)
Net result of operations with financial assets at fair value through profit or loss	23	(2,118)	(2,556)
Net result from disposals other than assets held for sale		(23)	(261)
Costs of provisions	19	16	127
Impairment of non-financial assets	18	3	-
Net interest income		(9,501)	(7,734)
Dividends received		(742)	(231)
		(10,069)	(10,383)
Increase in loans and receivables		(20,340)	(37,573)
Increase of receivables under repurchase agreements of securities		(12,580)	(1,116)
Decrease of financial assets at fair value through profit or loss		899	1,169
Increase of other assets		(567)	(103)
(Decrease)/Increase of deposits from credit institutions		(21,169)	15,143
Increase of deposits from clients other than credit institutions		77,047	67,104
Increase/(Decrease) in other liabilities		260	(1,154)
NET CASH FLOW FROM OPERATING ACTIVITIES		13,481	33,087
INVESTING ACTIVITIES			
Cash payments for the acquisition of financial assets at fair value through other comprehensive income		(3,568)	(19,641)
Cash payments for the acquisition of financial assets at amortized cost		58	(5,579)
Payments for acquisition of property, plant and equipment, net		(1,873)	(4,154)
Proceeds from sales of property, plant and equipment		79	1,567
Payments for acquisition of intangible assets		(256)	(307)
Interests received		10,242	8,040
Interest paid		(820)	(988)
Dividends received		382	231
NET CASH FLOW FROM INVESTING ACTIVITIES		4,244	(20,831)
FINANCING ACTIVITIES			
Lease contract payments		(1,770)	-
NET CASH FLOW FROM FINANCING ACTIVITIES		(1,770)	-
Net increase in cash and cash equivalents		15,955	12,590
Loss from currency revaluation of cash and cash equivalents		-	(334)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		58,057	45,801
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	74,012	58,057

These separate financial statements were approved by the Management Board of Texim Bank AD on March 26, 2020.

Ivaylo Donchev
Executive Director

Maria Vidolova
Executive Director

Milena Parusheva
Chief Accountant

Audited according to the auditor's report dated 30 March 2019

Grant Thornton Ltd.

Grant Thornton Ltd.

RSM BG Ltd.

Mariy Apostolov
Managing partner

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Registered auditor

Mariana Mihaylova
Registered auditor
Managing partner

The notes to the separate financial statements from pages 5 to 70 form an integral part of these financial statements

TEXIM BANK AD

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019 (Continued)

All amounts are in thousand Bulgarian Leva, unless otherwise stated

1. ORGANIZATION AND OPERATIONS

„Texim Bank“ AD (the Bank) is a joint stock company registered in the Republic of Bulgaria in 1992. The bank is registered in the Trade register with UIC 040534040. The Bank’s registered address is 117, “Todor Aleksandrov“ Blvd., Sofia, Bulgaria.

The Bank possesses a full license from Bulgarian National Bank (BNB), the Central Bank of Bulgaria, to perform all banking activities in the country and abroad, namely: attracting deposits in local and foreign currency, providing loans, transactions with foreign payment means, precious metals, securities, transactions under art. 54, para 1 of the Law on public offering of securities, etc.

The Bank is a listed company and its shares are traded on the Bulgarian Stock Exchange, Sofia.

The Bank's management system is two-tier and consists of a Supervisory and Management board. The Supervisory Board is composed of: Mr. Milen Markov, Mr. Apostol Apostolov, Mr. Petar Hristov, Mrs. Ivelina Kancheva-Shaban, Mr. Veselin Morov.

The Managing Board is composed of Mrs. Iglia Logofetova, Mrs. Maria Vidolova, Mrs. Dimitar Zhilev, Mr. Temelko Stoichev, Mr. Ivaylo Donchev.

The Bank is represented in front of third parties, together by two of the three representatives - Mr. Ivaylo Lazarov Donchev, Mrs. Maria Petrova Vidolova and Mr. Temelko Valentinov Stoichev.

The Bank operates through its Head Office, branches and remote work places. As at 31 December 2019 the Bank has 34 offices. As at 31 December 2019 the Bank has 302 employees.

2. BASES FOR THE PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS

2.1 General Financial Reporting Framework

These financial statements are separate financial statements and have been prepared for the year ended 31 December 2019. The amounts in the financial statements are presented in thousand Bulgarian Leva (BGN'000).

Management is responsible for the compilation and fair presentation of the information in these financial statements.

These separate financial statements have been prepared for general purposes, under the going concern assumption. These separate financial statements are prepared in all material respects in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union (EU) and applicable in the Republic of Bulgaria.

The Bank controls the subsidiaries UD Texim Asset Management AD and Texim Projects EOOD. In accordance with the requirements of IFRS 10 “Consolidated financial statements”, the Bank prepares consolidated financial statements, which will be issued in April 2020.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019 (Continued)

All amounts are in thousand Bulgarian Leva, unless otherwise stated

These financial statements have been prepared in accordance with the Bulgarian national legislation. The Bank's operations are regulated by the Law on Credit Institutions and BNB Ordinances. BNB supervises and monitors the compliance with the banking legislation.

The Bank prepares its financial statements using the historical cost convention for accounting assets and liabilities except for financial assets held for trading, financial assets available for sale and investment properties, which are measured at fair value; land and buildings which are measured at revaluated cost and non-current assets held for sale which are measured at the lower of their carrying amount or fair value, less realization costs. Loans, receivables and financial assets held to maturity are measured at amortized cost.

2.2 Changes in IFRS

2.2.1 Initial implementation of new amendments to existing standards that entered into force during the current reporting period

The Company has adopted the following new standards, amendments and interpretations to IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Bank's financial statements for the annual period beginning 1 January 2019:

IFRS 16 "Leases" effective from 1 January 2019, adopted by the EU

IFRS 16 "Leases" replaces IAS 17 "Leases", as well as three interpretations: IFRIC 4 "Determining whether an Arrangement Contains a Lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 recognized in equity as an adjustment to the opening balance of retained earnings for the current period. Previous periods are not recalculated.

For contracts concluded before the date of initial application, the Company has chosen to apply the definition of lease under IAS 17 and IFRS 4 and has not applied IFRS 16 to contracts that were not previously identified as a lease under IAS 17 and IFRIC 4.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

An average weighted average incremental borrowing rate of 5.64% was used to value lease liabilities at the date of transition to IFRS 16.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019 (Continued)

All amounts are in thousand Bulgarian Leva, unless otherwise stated

The following is a reconciliation of the financial statement positions under IAS 17 and the new positions under IFRS 16 as of January 1, 2019:

	Carrying amount 31 December 2018 (BGN '000)	Remeasurement (BGN '000)	IFRS 16 Carrying amount 1 January 2019 (BGN '000)
Property, plant and equipment	14,363	5,609	19,972
Lease liabilities	-	(4,511)	(4,511)
Total	14,363	1,098	15,461

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

	IFRS 16 1 January 2019 (BGN '000)
Total operating leasing liabilities as of 31 December 2018	3,062
Exemption from recognition:	
Other adjustments related to disclosure of contractual obligations	1,449
Operating lease liabilities before discounting	5,159
Discounting using incremental borrowing rate	(648)
Operating lease liabilities	4,511
Finance lease liabilities	-
Total lease liabilities recognized under IFRS 16 as of 1 January 2019	4,511

The table below provides a summary of the financial impact of the application of IFRS 16 on the Company's financial statements:

In BGN '000	1.1.2019	For the year ended 31.12.2019
Right-of-use assets	(5,609)	
Lease liability	4,511	
Other items, such as prepaid or accrued lease payments, recognized in the statement of financial position immediately before the date of initial application	(1,098)	
Cumulative effect recognized as an adjustment to equity at the date of initial application.	-	
Expected effect on the statement of profit profit and loss:		
- Increase in depreciation		(1,720)
- Increase in interest expenses		(289)
- Reduced rental costs		1,900
Expected effect on the statement of cash flows:		
- Increase in net cash flow from operating activities		1,720
- Decrease in net cash flow from financing activities		(1,749)

IFRS 9 Financial Instruments (revised) - Prepayments with Negative Compensation, effective from 1 January 2019, adopted by the EU

The amendments allow companies to measure certain financial assets that can be paid in advance with negative compensation, at amortized cost or at fair value through other comprehensive income, rather than as financial assets at fair value through profit or loss.

In order to account for the financial asset at amortized cost, the negative consideration must be "reasonable compensation for early termination of the contract" and the asset should be "held to collect the contractual cash flows".

IFRIC 23 'Income tax uncertainty' - effective from 1 January 2019, adopted by the EU

The Interpretation provides the following guidance for applying IAS 12 regarding recognition and measurement requirements when there is uncertainty about income tax reporting:

- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

Annual Improvements to IFRSs 2015-2017, effective from 1 January 2019, adopted by the EU

These amendments include minor changes to:

- IFRS 3 “Business combinations” – the company remeasures its previously held interest in a joint operation when it obtains control of the business;
- IFRS 11 “Joint arrangements” – the company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business;
- IAS 12 “Income taxes” – the company accounts for all income tax consequences of dividends (including payments on financial instruments classified as equity) consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity;
- IAS 23 “Borrowing costs” – the company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The Bank has adopted the following new standards, amendments and interpretations to IFRS issued by the International Accounting Standards Board and endorsed by EU, which are relevant to and effective for the Bank's financial statements for the annual period beginning 1 January 2019 but do not have a significant impact on the Bank's financial results or position:

- IAS 19 “Employee benefits” (amended) – Plan amendment, curtailment or settlement
- IAS 28 “Investments in associates and joint ventures” (amended) – Long-term interests in associates and joint ventures

2.2.2 Standards and amendments to existing standards issued by the IASB and adopted by the EU that have not effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued, but are not effective or adopted by the EU for the financial year beginning on 1 January 2019 and have not been adopted early by the Bank. Information on those expected to be relevant to the Bank's financial statements is provided below.

IAS 1 and IAS 8 (amended) - Definition of Material, effective from 1 January 2020, adopted by the EU

The amendments aim to use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting. The amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019 (Continued)

All amounts are in thousand Bulgarian Leva, unless otherwise stated

- the meaning of ‘primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need.

Amendments to References to the Conceptual Framework in IFRS Standards, effective from 1 January 2020, adopted by the EU

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (issued on 26 September 2019) , effective from 1 January 2020, not yet adopted by the EU

The proposed update includes elements to reflect the new disclosure requirements introduced by the amendments to IFRS 9, IAS 39 and IFRS 7.

The following new standards, amendments and interpretations to existing standards, which have also been issued, but are not yet effective, are not expected to have a material impact on the Bank’s financial statements:

- IFRS 3 (amended) - Definition of a Business, effective from 1 January 2020, not yet adopted by the EU
- IFRS 14 “Regulatory deferral accounts” effective from 1 January 2016, not yet adopted by the EU
- IFRS 17 “Insurance Contracts” effective from 1 January 2021, not yet adopted by the EU

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting estimates and accounting assumptions

The presentation of financial statements requires management to apply certain accounting estimates and reasonable assumptions that affect the reported carrying amount of assets and liabilities as of the date of the financial statements, as well as the amount of revenues and expenses during the reporting period and to disclose contingent assets and liabilities. These estimates and assumption are based on the information available at the date of the preparation of the separate financial statements and the future actual results may differ from these estimates. Under the conditions of uncertain market environment the amount of impairment losses on loans and advances, financial assets available for sale, other financial instruments, as well as the values of other accounting estimates in subsequent reporting periods may differ substantially

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019 (Continued)

All amounts are in thousand Bulgarian Leva, unless otherwise stated

from those measured and reported in these separate financial statements. The recoverability of the loans and the adequacy of the recognized impairment losses, as well as the maintaining of the Bank's liquidity ratios depend on the financial position of the borrowers and their ability to settle their obligations at contracted maturity in subsequent reporting periods. The Bank's management applies the necessary procedures to manage these risks, as disclosed in note. 30.

The accounting estimates and assumptions are related mainly to fair value measurement of financial instruments according to hierarchical groups, depending on the methods for determining the fair value, as disclosed in note 3.16.

Significant management's judgment in the application of the Bank's accounting policies that have the most impact on the financial statements and the main sources of uncertainty in the estimates used are described below.

In the preparation of the financial statements, the management makes a number of assumptions, assessments and assumptions about the recognition and measurement of assets, liabilities, income and expenses. Actual results may differ from management's assumptions, assessments and assumptions and, in rare cases, entirely in line with previously assessed results. Information on the material assumptions, estimates and assumptions that have the most significant impact on the recognition and measurement of assets, liabilities, income and expenses is presented below.

Determination of the business model

The classification and subsequent valuation of financial assets depends on the results of the test to determine whether the cash flows from the asset are only principal and interest, and the business model test. The Bank has set a business model at a level that reflects how groups of financial assets are managed together to achieve a specific business objective. This valuation includes judgments reflecting how the presentation of assets is valued and measured, the risks that affect performance. The Bank monitors the financial assets measured at amortized cost and those measured in other comprehensive income, which were written off before their maturity, in order to understand the reasons for the write-off and whether these reasons are in accordance with the business model under which those assets are held. Monitoring is part of the policy of continuing assessment of whether the adopted model continues to be appropriate, if not - to carry out the necessary reclassification of those assets.

Significant increase of credit risk

Expected credit loss (ECL) is measured for a twelve-month basis for Phase 1 assets and the full asset life of Phase 2 and 3 assets. An asset is transferred to Phase 2 when its credit risk has increased significantly since initial recognition by taking quantitative and qualitative indicators and information.

Determination of group with similar credit characteristics

When ECL is determined on a collective basis, financial instruments are grouped on a basis of shared risk characteristics that are observed on an ongoing basis to ensure that if the credit characteristics change, appropriate asset re-allocation will take place.

Models and assumptions

The Bank uses different models and assumptions to determine the fair value of financial assets and the expected credit loss. Assumptions are applied in determining the most appropriate model of each asset type, as well as in determining the assumptions used in the particular model, including in terms of credit risk. Refer to note 30.1 for more information on the expected credit loss and note 3.16 for more information regarding the determination of fair values.

3.2 Significant sources of uncertainty

Future-oriented information

When measuring the expected credit losses, the Bank uses reasonable and up-to-date information about future expectations, which is based on assumptions about future changes in different economic indicators and how they influence each other. Refer to note 30.1 for more information, including a sensitivity analysis of reported expected credit losses against changes in assumptions about future expectations.

Probability of default

Probability of default is a key input to determining expected credit losses. It is an estimate of the probability of default for a given time horizon, its calculation includes historical data, assumptions and expectations for future conditions. Refer to note 30.1 for more details, including sensitivity analysis of reported expected credit losses to changes in probability of default due to changes in economic indicators.

Loss given default

Loss given default is an estimate of the loss in case of non-performance. It is based on the difference between the agreed contractual cash flows and those that the lender expects to receive, also taking into account cash flows from collateral. Refer to note 30.1 for more details, including an analysis of the sensitivity of reported expected credit losses to changes in non-performing losses as a result of changes in economic indicators.

Fair value measurement

When assessing the fair value of the Bank's assets, observable market information is used to the extent that it is available. In the event that these level 1 outputs are not available, the Bank uses valuation models to determine the fair value of its financial assets. Refer to note 3.16 for more information on determining the fair value of financial instruments.

Provisions

The Bank is a defendant in several lawsuits to the current period. The management of the Bank has reviewed the legal and constructive obligations and has accepted that the execution of a pending court case is likely to result in outgoing cash flows.

Lease contract terms

When determining the lease contract terms, management takes into account all the facts and circumstances that create an economic incentive to exercise the option of extension or not to exercise the option of termination. Extension options (or periods after the termination options) are included in the lease term only if it is reasonably certain that the lease is extended (or not terminated).

Some leases include options for extension and termination. Management considers all material factors that give rise to economic incentives to exercise or not to renew or terminate options to reliably determine the lease term for which it calculates leases. In the event of a change in circumstances or significant events, the lease term is revalued.

3.3 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual terms of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and substantially all the risks and rewards are transferred.

Financial liabilities are derecognized when the obligation specified in the contract is fulfilled, canceled or expires.

Classification and initial measurement of financial assets

Financial assets are initially measured at fair value, adjusted for transaction costs, except for financial assets at fair value through profit or loss and trade receivables that do not contain a significant financial component. The initial measurement of financial assets at fair value through profit or loss is not adjusted with transaction costs that are reported as current expenses. The initial measurement of trade receivables that do not contain a significant financial component represents the transaction price in accordance with IFRS 15.

Depending on the method of subsequent measurement, financial assets are classified into the following categories:

- Debt instruments at amortised cost;
- Financial assets at fair value through profit or loss (FVTPL);
- Financial assets at fair value through other comprehensive income (FVOCI) with or without reclassification in profit or loss, depending on whether they are debt or equity instruments.

The classification is determined by both:

- the entity's business model for managing the financial asset;
- the contractual cash flow characteristics of the financial asset.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions and are not designated as FVTPL:

they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows;

the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This category includes non-derivative financial assets like loans and receivables with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

Trade receivables

Trade receivables are amounts due from customers for goods or services sold in the ordinary course of business. Typically, they are due to be settled within a short timeframe and are therefore classified as current. Trade receivables are initially recognised at amortized cost unless they contain significant financial components. The Bank holds trade receivables for the purpose of collecting the contractual cash

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019 (Continued)

All amounts are in thousand Bulgarian Leva, unless otherwise stated

flows and therefore measures them at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

Financial assets at fair value through profit and loss

Financial assets that are held within a different business model than “hold to collect” or “hold to collect and sell”, and financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Financial assets at fair value through other comprehensive income

The Bank accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is “hold to collect” the associated cash flows and sell; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets at FVOCI include:

- Debt securities where the contractual cash flows are solely payments of principal and interest and the purpose of the company's business model is achieved both by collecting contractual cash flows and by selling the financial assets.

On disposal of debt instruments of this category, any amount recognised in the revaluation reserve is reclassified to profit or loss for the period.

Impairment of financial assets

The new impairment requirements under IFRS 9 use more forward looking information to recognize the expected credit losses - the "expected credit loss" model that replaces the "loss pattern" presented in IAS 39.

Instruments, which fall within the scope of the new requirements include:

- debt instruments measured at amortized cost: loans and receivables, cash receivables, trade and other financial assets, contract assets recognized and measured under IFRS 15, and credit commitments;
- debt instruments measured at fair value through other comprehensive income.

Loans and receivables

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Bank considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (Stage 1) and

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019 (Continued)

All amounts are in thousand Bulgarian Leva, unless otherwise stated

- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (Stage 2)
- Stage 3 would cover financial assets that have objective evidence of impairment at the reporting date.

“12-month expected credit losses” are recognised for the first category while “lifetime expected credit losses” are recognised for the second category. Expected credit losses are determined as the difference between all contractual cash flows attributable to the Bank and the cash flows it is actually expected to receive (“cash shortfall”). This difference is discounted at the original effective interest rate (or credit adjusted effective interest rate).

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables and contract assets

The Bank uses a simplified approach to accounting for trade and other receivables as well as contract assets and recognizes impairment losses as expected credit losses over the entire period. These represent the expected shortfall in contractual cash flows, given the possibility of default at any time in the financial instrument's term. The Bank uses its accumulated experience, external indicators and long-term information to calculate the expected credit losses on an individual basis and, if applicable, on a collective basis.

Financial assets measured at fair value through other comprehensive income

The Bank recognizes the expected 12-month credit losses for financial assets measured at fair value through other comprehensive income. At each reporting date, the Bank assesses whether there is a significant increase in the credit risk of the instrument and takes into account available information such as adverse business changes, economic or financial conditions that may affect the issuer's ability to fulfill its debt obligations or unexpected changes in the issuer's operating results.

If any of these indicators results in a significant increase in the credit risk of the instruments, the Bank recognizes expected instruments for these instruments or for this instrument class for the entire duration of the instrument.

Classification and measurement of financial liabilities

Financial liabilities are initially measured at fair value and, where applicable, adjusted for transaction costs unless the Bank has designated a financial liability as measured at fair value through profit or loss. Financial liabilities are subsequently measured at amortized cost using the effective interest method. All interest costs and, if applicable, changes in the fair value of the instrument that are recognized in profit or loss are included in financial expenses or financial income.

3.4 Inventory

Inventory includes materials, fuels and assets acquired as collateral for loans for sale. Cost of inventories includes all expenses directly attributable to the purchase or manufacturing process, recycling and other direct expenses connected to their delivery as well as suitable portions of related production overheads, based on normal operating capacity. Financing costs are not included in the cost of the inventories. At the end of every accounting period, inventories are carried at the lower of cost and net realizable value. The amount of impairment of inventories to their net realizable value is recognized as an expense for the period of impairment.

Net realizable value is the estimated selling price of the inventories less any applicable selling expenses. In case inventories have already been impaired to their net realizable value and in the following period the

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impairment conditions are no longer present, than the new net realizable value is adopted. The reversal amount can only be up to the carrying amount of the inventories prior to their impairment. The reversal of the impairment is accounted for as decrease in material expenses for the period in which the reversal takes place.

The Bank determines the cost of inventories by using the specific identification of the value of inventories method.

When inventories are sold, the carrying amount of those inventories is expensed in the period in which the related revenue is recognized.

3.5 Operating segments

In connection with the requirements of IFRS 8, paragraph 2 /a/ /i/ and the need for disclosure of operating segments, the Bank has distinguished itself in the following business lines: corporate and institutional banking, retail banking and money markets and liquidity. The operating results of these lines of business are reviewed and analyzed on a regular basis by the Management.

Types of products and services in business activities:

- Retail banking - attracting funds and lending to individuals through various sales channels and customer service; payment services;
- Corporate and institutional banking - Attracting funds and lending to legal entities - commercial companies and budget enterprises;
- Money markets and liquidity: securities transactions, redemption arrangements for securities; interbank market transactions; currency trading; currency and other financial instruments for customer service and others.

Operating segments pay and receive interest on the assets and liabilities they manage under market conditions through intra-pricing (FTP), reflecting the financing and liquidity costs of currencies and maturities.

The share intra-pricing by segment is as follows:

- Corporate and Institutional Banking: 46%;
- Retail banking: 26%;
- Money markets and liquidity: 28%.

Operating revenue/expenses that are not attributable to transactions in interest-bearing assets/liabilities are allocated directly to the business segments under whose management the specific asset/liability or source of income/expense is held; Expenditure on expected credit losses, impairments and provisions on assets is allocated directly to the segment of the specific asset to which the specific expense relates.

Administrative expenses are monitored generally and by type, and are distributed across business segments through objective criteria.

3.6 Investments in subsidiaries

A subsidiary is an entity over which the Bank, directly or indirectly has control. Control exists when the Company is exposed to, or has the right to variable return from its participation in the enterprise, in which it has invested and has the possibility to exert impact over this return through its power over the enterprise, in which it has invested.

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It is assumed that control exists, when the Parent company owns directly or indirectly through its subsidiaries, more than half of the voting rights in a given enterprise, with the exception of cases where there are extraordinary circumstances and when it is not possible to show clearly, that such ownership indicates the existence of control. Control exists when the Parent company owns half or less than half of the voting rights in an enterprise and when it:

- owns more than half of the voting rights by virtue of an agreement with other investors;
- has the power to govern the financial and operating policy of the enterprise by virtue of articles of association or agreement;
- has the power to appoint or dismiss the majority of the members of the Board of Directors or another equivalent managing body and control over the enterprise is through this board or body; or
- has the power to exercise the majority of the votes at meetings of the Board of Directors or another equivalent managing body and control over the enterprise is through this board or body.

In the separate financial statements of the Bank the shares in its subsidiary are initially recognized at cost. Subsequently, the Bank performs periodic reviews for impairment. If impairment exists, it is recognized in the statement of comprehensive income as impairment loss of investments in subsidiaries.

3.7 Off-balance sheet commitments

In the course of its activity, the Bank forms off-balance sheet financial instruments, which consist of letters of credit and guarantees. Such financial instruments are reported in the statement of financial position upon utilization of the funds.

3.8 Property, plant and equipment

Non-current assets include property, plant and equipment (including right of use assets according to IFRS 16). Non-current assets, with the exception of land and buildings, are reported at cost, less accumulated depreciation and impairment losses. The cost includes all expenses for acquisition and for bringing the asset to the condition necessary for it to be capable of operating, paid duties and non-refundable taxes.

Land and buildings include mainly offices of the Bank. Land and buildings are reported at revalued amount, based on the valuation of independent external appraisers, less subsequent accumulated depreciation. Such revaluations are performed as frequently as needed, when the fair value of the non-current assets differs significantly from their carrying amount.

Increases in the carrying amount, arising from valuations, are reported in the revaluation reserve of equity. Decreases, netted during prior increases, are reported in the revaluation reserve. All other decreases are reported in profit and loss.

Depreciation of property, plant and equipment is accrued according to the straight-line method and during the expected useful life of the respective assets. The Bank applies the following annual depreciation rates for 2019 and 2018:

Properties	1% to 4%
Machines and equipment	20% - 30%
Office equipment and computers	20%
Vehicles – automobiles	20%
Fixtures and fittings and other non-current assets	10 - 15%
Property, plant and equipment and intangible assets, for which there are legal constraints for the period of use/improvements of leased buildings	according to the term of the legal constraints of the agreement but not higher than 33.3%

3.9 Leases

Leased assets

As described in note 2.2.1, the Company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

Accounting policy applicable from 01 January 2019

The Company as a lessee

For any new contracts entered into on or after 1 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Company has the right to direct the use of the identified asset throughout the period of use.

The Company assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

After initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation

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to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in deposits from customers other than credit institutions and lease liabilities.

Extension and termination options are included in property leases. They are used to increase operational flexibility regarding the management of assets used in the operations of the Bank.

The Company as a lessor

The Company's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor the Company classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

3.10 Intangible assets

Intangible assets include mainly investments in software, rights of use and licenses. They are reported at historic cost less accumulated amortization and impairment. Amortization of intangible assets is calculated and recognized by applying the straight-line method.

The Bank applies the following amortization rates for 2019 and 2018:

Software and other intangible assets	10 - 20%
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3.11 Investment property

Investment property is real estate, which is held by the Bank for the purpose of receiving income from rent or gaining profit. Investment property is reported at revalued amount and the difference between the carrying amount and the revalued amount is reported in profit or loss.

3.12 Interest income and expense

Interest income and expense are recognized on a time proportion basis, using the effective interest rate method as amortization of any difference between the amount at initial recognition of the respective asset or liability and the amount at maturity.

The effective interest rate is assumed to be equal to the contracted rate for loans granted to the Bank and liabilities to depositors, where the interest is calculated on a daily basis by applying the contracted interest rate to the residual amount.

Interest income from possession of financial assets, reported at fair value, is reported as interest income from financial assets at fair value.

For all assets for which the Bank has made an assessment that no contractual cash flows are expected to be collected, or the contractual cash flows carry an additional risk in which the expected future cash flows will be realized at a reduced rate or at a later point in time the Bank recognizes interest income on the net carrying amount of the asset.

For financial assets where the Bank does not expect to collect the contractual cash flows, the recognized interest income on the net asset value is zero.

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3.13 Fees and commissions

Fees and commissions consist mainly of fees for payment transactions in Bulgarian Levs and foreign currency, fees for servicing deposit accounts, fees for opening of letters of credit and issuing of bank guarantees. The fees and commissions for granting and handling of short and long-term loans, which represent an integral part of the effective income, are recognized as a correction of the interest income.

The fees and commissions received under long-term loans are discounted by the effective interest rate method for the period to maturity using the contracted interest rate.

3.14 Foreign currency transactions

Transactions, denominated in foreign currencies, have been translated into BGN at the rates of BNB on the date of transaction. Receivables and payables in foreign currencies are revalued on a daily basis. Receivables and payables denominated in foreign currencies are translated into BGN at reporting date using closing exchange rates of BNB on that date:

<u>Currency</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
USD	1.74099	1.70815
Euro	1.95583	1.95583

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

Net gains or losses resulting from change in exchange rates, arising from revaluation of receivables, liabilities and from settlement of foreign currency transactions are recognized in the statement of comprehensive income in the period they have occurred.

3.15 Taxation

The Bank accrues taxes currently due in accordance with the Bulgarian legislation. Income tax is computed on the basis of taxable profit for the period, calculated in compliance with the requirements of the tax legislation, related to tax payment/refunding.

Tax effect, related to transactions or other events, which are reported in the statement of comprehensive income, is also reported in the statement of comprehensive income, and the tax effect related to transactions or other events, which are reported directly to equity, is also reported directly to equity.

A deferred tax liability is recognized for all taxable temporary differences unless it arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. This does not apply to cases where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affects neither accounting profit nor taxable profit (tax loss).

Deferred taxes are recognized as income or expense and are included in the net profit for the period except to the extent that the tax arises from a transaction or event which is recognized in the same or different

period, directly in equity. Deferred taxes are charged or credited directly to equity when the tax relates to items that are credited or charged in the same or a different period, directly to equity.

3.16 Fair value of financial assets and liabilities

The Bank applies IFRS 13 “Fair value measurements”. The standard establishes a single source of guidance for fair value measurements and disclosures. The scope of IFRS 13 is broad applying to both financial and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures.

IFRS 13 defines the fair values as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or the most advantageous) market at the measurement date under current market condition. Fair value under IFRS 13 is an exit price regardless of whether the price is directly observable or estimated using another valuation technique.

3.16.1 Fair value measurement, valuation methods

Some of the assets and liabilities of the Bank are being recognized at fair value for the purposes of financial reporting. For these assets and liabilities, as well as for assets and liabilities whose fair value disclosure is required, the Bank discloses for each class financial instruments the hierarchy level of fair value to which the measurements of fair value are categorized in their full scope, each significant transfer between level 1 and 2 of the fair value hierarchy and the respective reasons, as well as reconciliation of opening and closing balances for the level 3 measurements.

Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Some of the Bank's financial assets are measured at fair value at the end of each reporting period. The following table provides information on how to determine the fair values of these financial assets (in particular valuation techniques and methods and input data used).

The following table presents an analysis of financial instruments that are measured after their initial recognition at fair value, grouped by hierarchical level of fair value.

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3.16.2 Financial instruments measured at fair value

	Periodic fair value estimates as at 31 December 2019			
	Level 1	Level 2	Level 3	Total
	BGN '000	BGN '000	BGN '000	BGN '000
Assests held for trading				
– equity securities	15,734	629	1,382	17,745
Investments in securities that are necessarily measured at fair value through profit or loss				
– shares in contractual funds	-	7,757	-	7,757
Investments at fair value through other comprehensive income				
– debt securities	19,320	-	15,290	34,610
– equity securities	-	-	1,617	1,617
Total assets	35,054	8,386	18,289	61,729

	Periodic fair value estimates as at 31 December 2018			
	Level 1	Level 2	Level 3	Total
	BGN '000	BGN '000	BGN '000	BGN '000
Assests held for trading				
– equity securities	14,127	1,076	1,344	16,547
Investments in securities that are necessarily measured at fair value through profit or loss				
– shares in contractual funds	-	7,376	-	7,376
Investments at fair value through other comprehensive income				
– debt securities	16,606	-	16,806	33,412
– equity securities	-	-	1,171	1,171
Total assets	30,733	8,452	19,321	58,506

In 2018, financial assets measured at fair value were transferred to Level 1 in the presence of an active market with the particular financial instrument. By the end of the year all such assets were again defined as Level 3 due to lack of quoted prices in an active market for them.

Unrealized gains / losses, related to financial assets at fair value through profit and loss :

2019	Assets at fair value through profit or loss on initial recognition - capital assets	Investments in securities measured at fair value through profit and loss - mutual funds
Fair value through profit and loss		
Assets		
Net income from revaluation and transactions with financial assets at fair value through profit and loss	1,357	380
Total	1,357	380
2018	Assets at fair value through profit or loss on initial recognition - capital assets	Investments in securities measured at fair value through profit and loss - mutual funds
Fair value through profit and loss		
Assets		
Net income from revaluation and transactions with financial assets at fair value through profit and loss	2,062	179
Total	2,062	179

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Unrealized gains / losses related to financial assets at fair value through other comprehensive income held at year-end:

	2019			2018		
	Fair value through other comprehensive income			Fair value through other comprehensive income		
	Investments at fair value through other comprehensive income - debt	Investments at fair value through other comprehensive income - equity	Total	Investments at fair value through other comprehensive income - debt	Investments at fair value through other comprehensive income - equity	Total
Assets						
Net income from other financial instruments at fair value through other comprehensive income	411	817	1,228	145	393	538

In determining the fair values of financial assets categorized as Level 3, i.e. the lack of an active market for a financial instrument is assessed using the evaluation techniques described below that can be used to determine the price that market participants would receive in order to sell an asset or would pay to transfer a liability in a typical transaction between them on the relevant reporting date.

The rating techniques are applied in the order described (valuation hierarchy):

1. Market comparison method: comparison with the prices of similar / identical financial products
2. Pricing models: price calculation using an estimation model, using primarily the discounted cash flow method.

In the case of inactive markets, as far as possible and reasonably priced, market prices are also used.

All evaluation models used are in accordance with generally accepted economic valuation methods for financial instruments. For financial instruments with fixed or determinable cash flows, the Discounted Cash Flow Method is generally applied.

Input market data used in valuation techniques includes prices of debt and equity securities, equity indices, risk or reference interest rates, credit spreads, exchange rates and other factors necessary to determine discount rates.

By the end of 2019, the fair value of debt instruments classified as Level 3 in the fair value hierarchy was measured using the discounted cash flow method, all of which have fixed and determinable cash flows. Discount factors are calculated by adding to the risk-free rate the additional spread determined at the initial spread of the issue or at a later point in which a large volume of transactions is reported.

In determining the fair value of equity securities held for trading, classified as Level 3 in the fair value hierarchy for 2019, the Net Asset Value and Discounted Cash Flow methods were used and a weighted average approach for determining the market value was applied.

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3.16.3 Financial instruments not measured at fair value

2019

	Non-periodic fair value measurements as at 31 December 2019				Total carrying amount BGN'000
	Level 1	Level 2	Level 3	Total fair value	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial assets					
Loans and advances granted					
– Loans and advances to customers at amortized cost	-	-	175,428	175,428	175,644
Investments in securities valued at amortized cost					
– Debt securities	5,681	-	-	5,681	5,524
Total	5,681	-	175,428	181,109	181,168
Financial liabilities					
Deposits from banks					
– Money market deposits	-	-	1,622	1,622	1,622
Deposits from clients					
– Term deposits	-	-	137,902	137,902	137,497
– Current accounts	-	-	180,149	180,149	180,149
Total	-	-	319,673	319,673	319,268

The fair value of loans and advances is calculated on the basis of market interest rates based on BNB statistics.

2018

	Non-periodic fair value measurements as at 31 December 2018				Total carrying amount BGN'000
	Level 1	Level 2	Level 3	Total fair value	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial assets					
Loans and advances granted					
– Loans and advances to customers at amortized cost	-	-	143,308	143,308	143,570
Investments in securities valued at amortized cost					
– Debt securities	5,555	-	-	5,555	5,597
Total	5,555	-	143,308	148,863	149,167
Financial liabilities					
Deposits from banks					
– Money market deposits	-	-	24,699	24,699	24,562
Deposits from clients					
– Term deposits	-	-	107,182	107,182	107,045
– Current accounts	-	-	131,590	131,590	131,591
Total	-	-	263,471	263,471	263,198

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4. CASH AND BALANCES WITH CENTRAL BANKS

	As at 31.12.2019	As at 31.12.2018
Cash on hand	7,192	7,270
Account balances with the Central Bank	49,345	36,547
TOTAL	56,537	43,817

The account balances with the Central Bank as of 31 December 2019 and 2018 include minimum non-interest bearing reserves at the amount of BGN 29,128 thousand and BGN 24,128 thousand, respectively, reserve guarantee fund for securing the payments through the system for gross settlement in real time - RINGS in accordance with the requirements of the Central Bank amounting to BGN 891 thousand and BGN 1,727 thousand. There are no limitations imposed by the Central Bank for using the minimum reserves. The amount of the reserves depends on the deposits attracted by the Bank.

4.1 Cash and cash equivalents in the Statement of cash flows

Cash and cash equivalents, for the purposes of their use in the cash flow statement, include cash in hand, cash at the Central Bank without any restrictions, as well as nostro accounts and granted resources, loans and advances to other banks, and receivables from banks under agreements with redemption clause with residual maturity up to 3 months.

Cash and cash equivalents consist of the following balances:

	As at 31.12.2019	As at 31.12.2018
Cash on hand	7,192	7,270
Account balances with the Central Bank	49,345	36,547
Nostro accounts in local banks	8,648	13,425
- blocked cash equivalents	(3,065)	(1,326)
Nostro accounts in foreign banks	7,278	2,741
- blocked cash equivalents	(609)	(600)
Deposits with local banks	5,223	-
TOTAL	74,012	58,057

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	As at 31.12.2019	As at 31.12.2018
Financial assets at fair value through profit or loss designated as such on initial recognition under IFRS 9	17,745	16,547
Financial assets at fair value through profit or loss, necessarily designated as such under IFRS 9	7,757	7,376
TOTAL	25,502	23,923

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	As at 31.12.2019	As at 31.12.2018
Shares and stocks in local businesses	17,745	16,547
Stocks in collective investment schemes	7,757	7,376
TOTAL	25,502	23,923

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31.12.2019	As at 31.12.2018
Debt instruments measured at fair value in other comprehensive income	34,610	33,412
Equity instruments measured at fair value in other comprehensive income	1,617	1,171
TOTAL	36,227	34,583

6.1 Debt instruments measured at fair value through other comprehensive income

	As at 31.12.2019	As at 31.12.2018
Bonds issued by Bulgarian issuers	15,290	19,762
Bulgarian government securities	13,558	11,149
Government securities issued by foreign governments	3,083	-
Bonds issued by foreign issuers	2,679	2,501
TOTAL	34,610	33,412

As of 31 December 2019 Bulgarian government securities in the amount of BGN 12,007 thousand were pledged to the BNB as collateral for budgetary funds (31.12.2018: BGN 7,500 thousand), of which government securities at the amount of BGN 7,157 thousand are measured at fair value through other comprehensive income

As of 31 December 2019, the average interest rate on Bulgarian government bonds denominated in euro is 5.75% (2018: 0%).

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6.2 Equity instruments measured at fair value through other comprehensive income

	As at 31.12.2019	As at 31.12.2018
Capital investments at fair value through other comprehensive income	1,617	1,171

The table below shows these investments as well as dividend income, recognized by these investments.

2019

	Fair value 31.12.2019	Dividend income recognised 2019
Shares and stocks of local companies	191	
Shares and stocks of foreign companies	1,426	7
Total equity investments at fair value through other comprehensive income	1,617	7

2018

	Fair value 31.12.2018	Dividend income recognised 2018
Shares and stocks of local companies	191	2
Shares and stocks of foreign companies	980	10
Total equity investments at fair value through other comprehensive income	1,171	12

The following table shows the movement during the period:

	As at 31.12.2019	As at 31.12.2018
1 January	34,583	15,728
Acquired	12,427	38,476
Sold	(10,261)	(19,017)
Interest and principal payments received	(2,904)	(889)
Change in revaluation reserve	689	(40)
Impairment for credit losses	(35)	(110)
Net gains on transactions with financial assets at fair value through other comprehensive income	119	26
Net revaluation gains on financial assets at fair value through other comprehensive income	250	315
Other increases, net	1,359	94
31 December	36,227	34,583

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7. LOANS AND RECEIVABLES, NET

	As at 31.12.2019	As at 31.12.2018
Loans and receivables from customers, net	148,180	128,728
Resources and deposits from banks provided	21,149	16,166
TOTAL	169,329	144,894

7.1 Loans and receivables from customers

Analysis by customer type

	As at 31.12.2019	As at 31.12.2018
Private companies	92,879	82,269
Budget	-	1
Households and individuals	46,206	34,884
Financial institutions	11,724	14,603
Impairment for uncollectability	(2,629)	(3,029)
TOTAL	148,180	128,728

Analysis by sector

	As at 31.12.2019	As at 31.12.2018
Individuals	46,206	34,884
Manufacturing	7,352	5,020
Services and others	23,869	28,074
Trade	29,151	25,646
Budget	-	1
Construction	3,001	3,330
Transport	17,293	18,754
Agriculture	1,634	1,445
Finance	22,303	14,603
Impairment for uncollectability	(2,629)	(3,029)
TOTAL	148,180	128,728

The agreed upon interest rates on loans in BGN and foreign currencies are predominantly variable. The weighted average interest rates on loans in BGN granted during the years ending 31 December 2019 and 2018 are approximately 4,24% and 4,75%, respectively. The weighted average interest rates on loans in euro for the years ending 31 December 2019 and 2018 are respectively 3.49% and 4.33%.

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7.2 Resources and deposits from banks provided

	As at 31.12.2019	As at 31.12.2018
In BGN		
Nostro accounts in local banks	83	792
	<u>83</u>	<u>792</u>
In foreign currency		
Deposits with local banks	5,223	-
Nostro accounts in foreign banks	7,278	2,741
Nostro accounts in local banks	8,565	12,633
	<u>21,066</u>	<u>15,374</u>
TOTAL	<u>21,149</u>	<u>16,166</u>

The average interest rate on the resources provided to banks in euro for the two years ending 31 December 2019 and 2018 is 0%.

As of 31 December 2019 and 2018, the amount of nostro accounts with foreign banks includes BGN 416 thousand of blocked funds in favor of Master Card Europe at Bank Santander and BGN 192 thousand in favor of JPMorgan Chase Bank (31 December 2018: BGN 407 thousand and BGN 193 thousand, respectively).

As of 31 December 2019 and 2018, funds worth BGN 3,065 thousand were blocked in nostro accounts with local banks in favor of Central Cooperative Bank AD as collateral for an open letter of credit and bank guarantees issued (31 December 31 2018: BGN 1,326).

8. RECEIVABLES UNDER REPURCHASE AGREEMENTS OF SECURITIES

	As at 31.12.2019	As at 31.12.2018
Receivables from private non-financial entities	16,280	14,842
Receivables from financial entities	11,184	-
	<u>27,464</u>	<u>14,842</u>

9. DEBT INSTRUMENTS AT AMORTIZED COST

	As at 31.12.2019	As at 31.12.2018
Bulgarian government securities	5,524	5,597

Debt instruments at amortised cost were acquired in 2018.

The value of debt instruments at amortized cost pledged as collateral for budget funds at 31 December 2019 is BGN 5,000 thousand. (31 December 2018 - BGN 5,000 thousand).

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For the year ended 31 December 2019 (Continued)

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10. NON-CURRENT ASSETS HELD FOR SALE

	As at 31.12.2019	As at 31.12.2018
Balance at the beginning of the year	-	586
Acquisitions during the year	599	-
Disposals during the year	(5)	(346)
Transferred to assets reported in accordance with IAS 16	(594)	-
Transferred to other assets	-	(240)
Balance at the end of the year	-	-

11. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Total	Land and buildings	Office equipment	Vehicles	Fixtures and fittings	Expenses for the acquisition of PPE	Other tangible assets	Software and other intangible assets
Cost								
1 January 2018	18,777	6,524	3,404	1,152	1,495	1,050	1,458	3,694
Additions	4,461	-	-	-	-	4,154	-	307
Disposals	(436)	(172)	(51)	(186)	(19)	(8)	-	-
Transfers	-	505	104	66	134	(979)	170	-
Revaluation	882	882	-	-	-	-	-	-
31 December 2018	23,684	7,739	3,457	1,032	1,610	4,217	1,628	4,001
Additions	8,107	5,882	-	95	1	1,873	-	256
Disposals	(548)	(393)	(11)	(44)	(55)	(45)	-	-
Transfers	-	33	1,006	179	1,266	(4,888)	2,404	-
Revaluation	948	948	-	-	-	-	-	-
31 December 2019	32,191	14,209	4,452	1,262	2,822	1,157	4,032	4,257
Accumulated depreciation								
1 January 2018	6,252	247	2,643	612	610	-	734	1,406
Charged during the year	1,164	155	293	179	145	-	120	272
Disposals	(418)	(172)	(51)	(176)	(19)	-	-	-
Transfers	-	-	-	-	-	-	-	-
Charged during the year, net	746	(17)	242	3	126	-	120	272
31 December 2018	6,998	230	2,885	615	736	-	854	1,678
Charged during the year	3,499	1,915	359	214	259	-	391	361
Disposals	(469)	(393)	(11)	(44)	(21)	-	-	-
Charged during the year, net	3,030	1,522	348	170	238	-	391	361
31 December 2019	10,028	1,752	3,233	785	974	-	1,245	2,039
Carrying amount as at 31 December 2018	16,686	7,509	572	417	874	4,217	774	2,323
Carrying amount as at 31 December 2019	22,163	12,457	1,219	477	1,848	1,157	2,787	2,218

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019 (Continued)

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Right-of-use assets are included in the net book value of property, plant and equipment as follows:

	Buildings	Vehicles	Total right-of-use assets
Gross carrying amount			
Balance as at 1 January 2019	-	-	-
Additions	273	106	379
Initial effect of IFRS 16	5,609	-	5,609
Balance as at 31 December 2019	5,882	106	5,988
Depreciation and impairment			
Balance as at 1 January 2019	-	-	-
Depreciation	1,720	21	1,741
Balance as at 31 December 2019	1,720	21	1,741
Carrying amount as at 31 December 2019	4,162	85	4,247

In the fair value hierarchy, land and buildings are classified in Level 3 using fair value valuation techniques.

Valuation technique	Significant unobservable input data	Relationship between key unobservable input data and fair value
Market approach	1. Limitations on the availability of actual transaction data or stock market prices for similar assets in an active market	Fair value will change if:
Comarables approach	Correction for lack of information for deals - 5-10% 2. Correction of analogues as coefficients for: technical parameters - (-36)-10% current condition - (-2)-6%	more or less analogues are used; more or less correction coefficients are applied; correction coefficients for technical parameters and current status are higher or lower; Fair value estimates will be more reliable when compared to comparable transaction prices rather than quotation prices.

In 2019 and 2018 a fair value measurement of the property owned by the Bank was carried out using market valuations prepared by an independent external appraiser.

12. INVESTMENT PROPERTIES

	As at 31.12.2019	As at 31.12.2018
Balance as at January 1	9,235	9,993
Acquisitions	-	-
Disposals	(391)	(1,187)
Transfers from non-current assets held for sale	594	-
Transfers from other assets	3,671	-
Change in fair value	643	429
Balance as at December 31	13,752	9,235

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For the year ended 31 December 2019 (Continued)

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Investment properties are measured at revalued amount.

According the hierarchy of fair values, investment properties are classified in level 3 (note 14).

	As at 31.12.2019	As at 31.12.2018
Land	5,630	2,726
Commercial buildings	4,157	3,042
Administrative buildings	3,134	3,078
Industrial buildings	831	389
	<u>13,752</u>	<u>9,235</u>

The fair value of the Company's real estate is determined on the basis of reports of an independent licensed appraiser who has a recognized and appropriate professional qualification and who has recent experience in the location and category of the appraised property.

In 2019 and 2018, the Bank reported investment property rent income of BGN 103 thousand and BGN 107 thousand, respectively, which is reported as other operating income.

In 2019 and 2018, taxes and repairs and maintenance costs, relating to the Bank's investment properties amount to BGN 58 thousand and BGN 62 thousand.

13. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries as of 31 December 2019 and 2018, are as follows:

COMPANY	SHARE		COST	
	As at 31.12.2019	As at 31.12.2018	As at 31.12.2019	As at 31.12.2018
UD „Texim Asset Management“ AD	100%	100%	450	450
„Texim Projects“ EOOD	100%	100%	1	1
TOTAL			<u>451</u>	<u>451</u>

In these separate financial statements, investments in subsidiaries are stated at cost (acquisition cost).

14. OTHER ASSETS

	As at 31.12.2019	As at 31.12.2018
Collateral on non-performing loans	304	3,979
Prepaid expenses	642	1,740
Advance payments	3	22
Inventory	73	206
Other	5,265	1,674
TOTAL	<u>6,287</u>	<u>7,621</u>

Assets (other than real estate) that are held for sale but have not been realized within one year are accounted for as inventory in accordance with IAS 2 and are presented as other assets. The majority of other assets are receivables related to the sale of financial assets.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019 (Continued)

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15. DEPOSITS AND LOANS FROM CREDIT INSTITUTIONS

	As at 31.12.2019	As at 31.12.2018
Term deposits from local banks in foreign currency	1,622	1,562
Loans from local banks in BGN	-	23,000
TOTAL DEPOSITS FROM CREDIT INSTITUTIONS	1,622	24,562

Changes in the Bank's liabilities arising from a financial activity may be classified as follows:

	2019 Loans from local banks in BGN	2018 Loans from local banks in BGN
1 January 2019	23,000	8,000
Cash flows:		
Payments	(58,000)	(13,000)
Proceeds	35,000	28,000
31 December 2019	-	23,000

16. DEPOSITS FROM CLIENTS, OTHER THAN CREDIT INSTITUTIONS AND LEASE LIABILITITES

	As at 31.12.2019	As at 31.12.2018
Deposits from clients other than credit institutions	317,646	238,636
Lease liabilities	3,305	-
TOTAL	320,951	238,636

16.1 DEPOSITS FROM CLIENTS, OTHER THAN CREDIT INSTITUTIONS (excl. obligations under leasing contracts)

	As at 31 December 2019			As at 31 December 2018		
	BGN	Foreign currency	Total	BGN	Foreign currency	Total
RESIDENTS	212,092	99,659	311,751	157,497	75,215	232,712
State budget	13,835	-	13,835	7,319	2	7,321
Financial	8,962	6,397	15,359	12,274	6,992	19,266
Households and individuals	96,289	57,633	153,922	67,311	44,177	111,488
Services	34,499	10,973	45,472	17,762	6,588	24,350
Manufacturing	6,033	2,081	8,114	2,409	1,935	4,344
Trade	31,110	15,157	46,267	32,477	7,319	39,796
Transport	10,973	5,234	16,207	10,170	3,571	13,741
Construction	6,908	1,524	8,432	5,557	4,532	10,089
Agriculture	3,483	660	4,143	2,218	99	2,317
NON-RESIDENTS	500	5,395	5,895	583	5,341	5,924
	212,592	105,054	317,646	158,080	80,556	238,636

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For the year ended 31 December 2019 (Continued)

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The average interest rates on the different types of deposits for the year ended 31 December 2019 are as follows:

	BGN	USD	EUR
Current accounts	0,09	0,00	0,01
Term deposits	0,85	0,53	0,97
Savings deposits	0,57	0,19	0,67

The average interest rates on the different types of deposits for the year ended 31 December 2018 are as follows:

	BGN	USD	EUR
Current accounts	0,01	0,00	0,02
Term deposits	0,80	0,49	0,72
Savings deposits	0,50	0,16	0,62

As of 31 December 2019, the Bank has no loans from customers other than credit institutions.

16.2 LEASE OBLIGATIONS

	As at 31.12.2019	As at 31.12.2018
Lease obligations - non-current portion	2,233	-
Lease obligations - current portion	1,072	-
TOTAL	3,305	-

The company rents office buildings and cars. With the exception of short-term leases and leases of low value assets, each lease is recognized in the statement of financial position as a right-of-use asset and a lease obligation. Variable lease payments that are not index-dependent or variable rates (for example, lease payments based on a percentage of the Company's sales) are excluded from the initial measurement of the lease liability and asset. The Company classifies its eligible assets in a consistent manner in its property, plant and equipment (see Note 11).

Each lease usually imposes a restriction such that the right-of-use asset can be used only by the Company, unless the Company has a contractual right to lease the assets to a third party.

The future minimum lease payments as of 31 December 2019 are as follows:

	Minimum lease payments due						Total
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
31 December 2019							
Lease payments	1,220	742	594	364	306	538	3,764
Financial expenses	(148)	(110)	(75)	(53)	(36)	(37)	(459)
Net present value	1,072	632	519	311	270	501	3,305

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For the year ended 31 December 2019 (Continued)

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The Company has chosen not to recognize a lease obligation if they are short-term (leases with an expected term of 12 months or less) or if they lease assets of low value. Payments made under these leases are recognized as an expense on a straight-line basis. In addition, some variable lease payments cannot be recognized as lease liabilities and are recognized as an expense when incurred.

The expenses for 2019 related to payments not included in the estimation of the lease obligations amount to BGN 191 thousand.

Interest expenses on lease contracts included in the financial expenses for the year ended 31 December 2019 are BGN 287 thousand. (2018: BGN 0 thousand).

The total cash outflow related to leases for the year ended 31 December 2019 is BGN 1,748 thousand.

Further information on the types of right-of-use assets is provided in Note 11.

17. TAXES

17.1 Tax liabilities

	As at 31.12.2019	As at 31.12.2018
Current tax liabilities in accordance with corporate income tax and personal income tax legislation in Bulgaria	76	70
Deferred tax liabilities	213	118
Total tax liabilities	<u>289</u>	<u>188</u>

During the period, deferred taxes in the amount of BGN 95 thousand were reported as a result of the revaluation of non-financial assets (2018: BGN 88 thousand)

17.2 Income tax expense

Current income tax expense represents taxes due under Bulgarian law at the statutory tax rate of 10% for 2019 and 2018. The deferred tax income or expense arises from changes in the carrying amount of deferred tax assets and liabilities.

The relationship between tax expense and accounting profit is as follows:

	For the year ended 31.12.2019	For the year ended 31.12.2018
Profit before tax	298	159
Taxes at applicable tax rates	30	16
Tax effect of deferred tax liabilities derecognised	-	-
Effect from transferred tax losses	(30)	(16)
INCOME TAX EXPENSE	<u>-</u>	<u>-</u>
EFFECTIVE TAX RATE	-	-

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019 (Continued)

All amounts are in thousand Bulgarian Leva, unless otherwise stated

18. OTHER LIABILITIES

	As at 31.12.2019	As at 31.12.2018
Outgoing bank transfers	369	309
Unused paid leave and other liabilities to personnel	206	166
Other liabilities	1,377	1,223
TOTAL	1,952	1,698

Outgoing bank transfers are liabilities for transfers in Bulgarian leva ordered by customers on the last day of 2019 and 2018, respectively, with a value date for performing the transfer within two working days. These transfers were made on the first business day of 2020 and 2019, respectively.

19. PROVISIONS

	As at 31.12.2019	As at 31.12.2018
Opening balance of provisions	222	245
Paid amounts	-	(245)
Provisions for court proceedings	-	165
Commitment and guarantee provisions	16	57
	238	222

The Bank's management has reviewed the legal and constructive liabilities that are likely to result in cash outflows and has determined that there is no basis for a change in the amount of the recognized provision of BGN 165 thousand for a pending court case under brought claim (31.12.2018: BGN 165 thousand).

20. EQUITY AND RESERVES

20.1 Share capital

The Bank's registered capital consists of 27,995 thousand fully paid ordinary shares with a par value of BGN 1 per share. All shares are entitled to receive dividend and liquidation share and represent one vote at the General Meeting of Shareholders of the Bank.

	As at 31.12.2019	As at 31.12.2018
	Number of shares	Number of shares
Share capital	27,995	27,995

20.2 Reserves

Reserves include statutory reserves, revaluation reserves and other reserves.

	As at 31.12.2019	As at 31.12.2018
Statutory reserves	2,150	1,991
Revaluation reserves	7,609	6,066
Other reserves	132	132

Statutory reserves are formed by the distribution of part of the Bank's profits in accordance with the requirements of Bulgarian Commercial Act.

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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Revaluation reserves include revaluations of tangible fixed assets and financial assets measured at fair value through other comprehensive income.

	As at 31.12.2019	As at 31.12.2018
Revaluation reserve of non-current assets	6,381	5,528
Revaluation reserve of financial assets at fair value through other comprehensive income	1,228	538
Revaluation reserve total	<u>7,609</u>	<u>6,066</u>

Changes in the revaluation reserve of financial assets at fair value through other comprehensive income are as follows:

	As at 31.12.2019	As at 31.12.2018
Balance as at 1 January	538	578
Net change in the fair value of debt instruments carried at fair value through other comprehensive income	516	161
Net value reclassified to the income statement for the sale of debt instruments at fair value through other comprehensive income	(250)	(315)
Net change in the fair value of equity instruments carried at fair value through other comprehensive income	424	114
Balance as at 31 December	<u>1,228</u>	<u>538</u>

21. INTEREST INCOME AND INTEREST EXPENSE

21.1 Interest income

	For the year ended 31.12.2019	For the year ended 31.12.2018
Operations in BGN	<u>8,643</u>	<u>6,616</u>
Interest on financial assets at fair value through other comprehensive income	629	286
Interest from loans and receivables	6,137	5,160
Interest on loans and receivables under repurchase agreements	1,725	1,086
Interest on financial instruments at amortized cost	112	46
Interest on other assets	16	38
Interest on other liabilities	24	-
Operations in foreign currency	<u>2,342</u>	<u>1,889</u>
Interest on financial assets at fair value through other comprehensive income	892	606
Interest from loans and receivables	1,442	1,275
Interest on other liabilities	8	8
TOTAL INTEREST INCOME	<u>10,985</u>	<u>8,505</u>

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21.2 Interest expense

	For the year ended 31.12.2019	For the year ended 31.12.2018
Operations in BGN	(1,049)	(467)
Interest on deposits, credit institutions	(29)	(17)
Interest on deposits, other than credit institutions	(750)	(327)
Interest on financial assets at fair value through other comprehensive income	(185)	(62)
Interest on financial instruments at amortized cost	(72)	(30)
Interest on other assets	(13)	(31)
Operations in foreign currency	(435)	(304)
Interest on deposits other than credit institutions	(315)	(238)
Interest on financial assets at fair value through other comprehensive income	(67)	(19)
Interest on other assets	(53)	(47)
TOTAL INTEREST EXPENSE	(1,484)	(771)

22. FEES AND COMMISSIONS INCOME, NET

	For the year ended 31.12.2019	For the year ended 31.12.2018
Fees and commissions income	4,656	3,848
In BGN	4,007	3,179
Loans management	88	85
Off-balance sheet commitments	48	61
Securities management	16	16
Borrowed funds	2,904	2,066
Cash operations	434	409
Other	517	542
In foreign currency	649	669
Loans management	4	23
Borrowed funds	513	558
Other	132	88
Fees and commissions expenses	(947)	(742)
In BGN	(665)	(537)
In foreign currency	(282)	(205)
FEES AND COMMISSIONS INCOME, NET	3,709	3,106

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23. NET GAINS ON OPERATIONS WITH FINANCIAL ASSETS

	For the year ended 31.12.2019	For the year ended 31.12.2018
Net gains on revaluation of financial assets at fair value through profit or loss on initial recognition	1,357	2,049
Net foreign exchange gains	381	315
Net gains on financial asset transactions at fair value through profit or loss on initial recognition	-	13
Net gains on financial assets at fair value through profit or loss on initial recognition	1,738	2,377
Net gains on revaluation of financial assets required to be measured at fair value through profit or loss	380	179
Net gains on financial assets at fair value through profit or loss	2,118	2,556
Net gains on operations with financial assets at fair value through other comprehensive income	119	26
Net gains on revaluation of financial assets at fair value through other comprehensive income	250	315
Net gains on financial assets at fair value through other comprehensive income	369	341
	<u>2,487</u>	<u>2,897</u>
	For the year ended 31.12.2019	For the year ended 31.12.2018
Net revaluation gains and financial asset transactions measured at fair value through profit or loss on initial recognition		
Shares and stocks	1,357	2,062
Net income from currency trading	381	315
	<u>1,738</u>	<u>2,377</u>

In 2019 and 2018, the Bank sold financial assets at fair value through other comprehensive income. The table below summarizes the write-downs by type of asset during the current year and the comparative period.

	For the year ended 31.12.2019	For the year ended 31.12.2018
Government bonds	54	197
Corporate bonds	315	144
	<u>369</u>	<u>341</u>

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24. NET GAINS FROM OPERATIONS WITH ASSETS AVAILABLE FOR SALE

	For the year ended 31.12.2019	For the year ended 31.12.2018
Profit from sale of real estate	1	7
Operating expenses related to non-current assets classified as held for sale	-	(6)
	<u>1</u>	<u>1</u>

25. OTHER OPERATING EXPENSES, NET

In 2019 and 2018, the Bank reported other operating income in the amount of BGN 502 thousand and BGN 361 thousand respectively. The major part of this income consists of rental income and the sale of anniversary coins.

In 2019 and 2018, the Bank reported other operating expenses in the amount of BGN 2047 thousand and BGN 869 thousand, respectively.

26. ADMINISTRATIVE EXPENSES

	For the year ended 31.12.2019	For the year ended 31.12.2018
Personnel costs	7,021	6,188
Materials, rents, consulting and other hired services	4,836	5,030
Taxes, fees, business trips, trainings, etc.	367	1,770
TOTAL	<u>12,224</u>	<u>12,988</u>

27. NET EXPENSES FOR IMPAIRMENT AND UNCOLLECTABILITY

In 2019, the Bank reported net impairment losses on loans and receivables from customers and debt securities in the total amount of BGN 489 thousand (2018: net expenses for loan impairments of BGN 281 thousand).

The movement of impairment losses on loans and receivables is as follows:

	Loans and receivables from customers
BALANCE AS AT 1 JANUARY 2018	<u>3,343</u>
Effect of the recalculation of the expected credit loss according to IFRS 9	28
Impairment for the period	1,247
Impairment for unrecognized interest	73
Reintegrated impairments for the period	(1,645)
Loans written off against provisions	(17)
BALANCE AS AT 31 DECEMBER 2018	<u>3,029</u>

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Impairment for the period	1,275
Impairment for unrecognized interest	62
Reintegrated impairments for the period	(1,726)
Loans written off against provisions	(11)
BALANCE AS AT 31 DECEMBER 2019	<u>2,629</u>

For more information about impairment of financial assets, see Note 30.1 Credit risk.

28. EARNINGS PER SHARE (IN BGN)

	For the year ended 31.12.2019	For the year ended 31.12.2018
Net profit after tax (in BGN thousand)	298	159
Weighted average number of shares	<u>27,995</u>	<u>27,995</u>
EARNINGS PER SHARE (IN BGN)	<u>0,011</u>	<u>0,005</u>

Basic earnings per share is determined as the net profit for the period to be distributed among the holders of common shares divided by the weighted average number of ordinary shares outstanding for the years ended 31 December 2019 and 2018, respectively.

The weighted average number of shares is calculated as the sum of the number of ordinary shares outstanding at the beginning of the period and the number of ordinary shares outstanding in the period, multiplying each number of shares by the average time factor.

For the Bank, the diluted earnings per share are equal to the basic earnings per share due to the fact that there are no potential ordinary diluted shares.

29. RELATED PARTIES

As of 31 December 2019 and 2018, the Bank has receivables, payables and contingent liabilities from related parties as follows:

Related parties and balances	Balance as at 31.12.2019	Balance as at 31.12.2018
Subsidiaries		
Deposits received	280	191
Key management personnel		
Loans granted	243	318
Deposits received	791	815

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For the year ended 31 December 2019 (Continued)

All amounts are in thousand Bulgarian Leva, unless otherwise stated

The income and expenses incurred by the Bank in 2019 and 2018 from related party transactions are as follows:

Related parties and types of transactions	For the year ended 31.12.2019	For the year ended 31.12.2018
Key management personnel		
Interest income	11	19
Interest expense	2	2
Fee income	2	3
Subsidiaries		
Revenue from services	46	-
Tax revenue	1	-

Key members of the Bank are the members of the Management Board, incl. the executive directors directly involved in the corporate operational management and the members of the Supervisory Board, who oversee the activity and make important decisions for the development of the Bank.

The remuneration of the members of the Management Board paid out in 2019 amounted to BGN 436 thousand (2018: BGN 437 thousand).

The remuneration of the members of the Supervisory Board paid in 2019 amounts to BGN 256 thousand (2018: BGN 270 thousand).

30. RISK MANAGEMENT, RELATED TO FINANCIAL INSTRUMENTS

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

The risk management system has preventive functions with regard to loss prevention and control of the amount of incurred losses and includes:

- Policies, rules, methodology and procedures for full identification, measurement, monitoring and control of all risks significant to the Bank;
- Organizational structure for risk management with suitable distribution of responsibilities between management levels and independence between the business units with functions to create or renew exposures and those which perform assessment and risk control;
- Parameters and limits for transactions and operations;
- Procedures for regular monitoring of settled limits for different risks;
- Procedures for control of maintenance at any time of sufficient amount of available capital to cover significant risks both under normal and stress conditions.
- Development, elaboration and addition to the system for risk reporting, analysis and control in accordance with the development of the Bank's risk profile, requirements of the national and European legislation and best bank practices.

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The main underlying principles in the Bank's risk management policy are:

- Limitation of the undertaken risk so that the Bank's business activity is not exposed to danger in short-term or long-term plan;
- Maintenance of sufficient amount of own capital to provide at any time the compliance with regulatory capital requirements, as well as adequate coverage level of undertaken risks under normal and stress conditions;
- Establishment of risk structure, which is appropriate for the business model, including through definition of risk profile and capital limits.

The risk management organizational structure is centralized and structured in terms of competency levels as follows:

- Supervisory board – determines the acceptable levels of risk within the adopted risk management strategy of the Bank, approves the organizational structure for risk management, approves risk limits, as well the main strategies and policies for risk management.
- Management board – responsible for implementation of approved by the SB policies for management of all significant risks and efficient operation of the risk management system;
- Specialized collective committees – approve the framework and parameters of the Bank's operations with respect to risk management;
- Executive directors – control the process of approval and implementation of adequate policies and procedures within risk management strategy, adopted by the Bank;
- Heads of structural units within the Bank - implement the adopted risk management policy within the operations of the respective organizational units.

The nature of the risks to which the Bank's financial instruments are exposed are as follows:

30.1 Credit risk

As a party to a financial instrument, the Bank defines the credit risk to which it is exposed as the possibility of its counterparty to cause a financial loss if it fails to repay its debt. The Bank manages its credit risk by setting limits for its exposures to individual clients or to a group of related parties, as well as limits by economic sector. In order to reduce credit risk, the Bank also demands appropriate collateral and guarantees in accordance with its internal lending rules.

Cash and cash balances in the Central bank bear no credit risk for the Bank due to their nature and the fact that they are at the Bank's disposal.

The resources and advances provided by banks are mainly deposits with international and Bulgarian financial institutions with a maturity of up to 7 days. The Bank manages the credit risk associated with these assets by setting exposure limits for each individual counterparty.

Loans and advances to customers of the Bank are credit risk exposures. To assess credit risk, the Bank performs risk analysis by applying criteria for assessing and classifying risk exposures that comply with International Financial Reporting Standards, regulatory requirements and good banking practices. In order to minimize credit risk, in the process of approval, management and administration of transactions, the Bank applies detailed procedures covering analysis of the economic feasibility of each financial instrument and acceptable collateral, control over the use of the granted funds and servicing the contractual cash flows, compliance with regulatory requirements, etc.

The Bank manages and controls the concentration risk of exposures to a single client or group of connected clients, as well as the risk of concentration of exposures to groups of counterparts with similar

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characteristics whose likelihood of default is driven by common factors.

The management and control of credit risk due to concentration is carried out by applying limitations that include:

- *Limits by customers and groups of related customers /individual exposures/* - Large exposures to a single customer or group of related customers are managed and limited in accordance with the Law on credit institutions of the Republic of Bulgaria (LCI), Regulation (EU) № 575/2013 and internal rules. The Bank monitors and reports to the Management Board individuals and economically related parties, which form an exposure equal to or exceeding 10% of the eligible capital of the Bank set in accordance with Regulation (EU) № 575/2013 and observes compliance with the 25% threshold for these exposures set out in Article 395 of Regulation 575.
- *Limits for counterparties* - The management and control of credit risk to counterparties is performed by determining and applying concrete limits for constraining the maximum risk exposure to a counterparty. For counterparties other than banks, the limits are approved by the management of the Bank based on in-depth internal analysis prepared by the business line and risk unit.
- *Limits by economic sectors* - The management and control of concentration of credit risk by economic sectors is performed by determining and applying limits for constraining concentration by sectors. The Bank uses the indicator Herfindahl-Hirschman (HHI), developed and approved for measurement of concentration of market structures, to determine the extent of concentration.
- *Limits on financial instruments and types of collateral* - Management and control of concentration risk with respect to specific financial instruments is carried out by applying limits to limit the maximum exposure by types of financial instruments, including in mutual funds, stocks and bonds, as well as types of collateral - stocks and bonds.

The carrying amount of exposures represents the maximum exposure of the Bank to credit risk.

The Bank's gross credit exposure before impairment losses is presented in the table below:

ASSETS	As at 31.12.2019	As at 31.12.2018
Granted resources and deposits from banks	21,149	16,169
Financial assets at fair value through profit or loss	7,757	7,376
Financial assets held for trading	17,745	16,547
Equity instruments at fair value through other comprehensive income	1,617	1,171
Debt instruments at fair value through other comprehensive income	34,754	33,592
Debt instruments at amortised cost	5,537	5,609
Loans and advances	150,809	131,757
Receivables under repurchase agreements	27,464	14,842
Off-balance sheet positions:	17,694	14,519
incl. credit commitments	11,562	8,361
incl. bank guarantees	6,132	6,158
TOTAL CREDIT EXPOSURE	284,526	241,582

The Bank does not include balances on its BNB accounts in its total credit exposure as it considers that they are not credit risk bearing.

For the purpose of effective management and control, the Bank has established mechanisms including Risk Management Board, Credit Board, Credit Committee, etc., which are responsible for the management of the credit risk.

The Credit Council is a permanent specialized body that reviews the proposals of the business line for

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concluding credit transactions with corporate clients, and then submits them to the Management and Supervisory Boards for approval. All credit transactions above a certain amount are approved by the Supervisory Board. The Credit Council operates in accordance with the rules and regulations adopted by the Management Board.

The Credit Committee is a specialized internal body responsible for the restructuring, individual classification and depreciation of risk exposures, as well as for their write-off. The Management Board of the Bank determines the number and composition of the Credit Committee. The latter carries out its activities in accordance with the rules and regulations adopted by the Management Board. The Credit Committee does not include persons responsible for approving loans and maintaining relationships with borrowers.

Risk Management Units are an independent structure of the units managing or performing the functions of creating or renewing exposures. The Risk Analysis and Risk Management Unit creates and develops the risk assessment and risk management framework and monitors its implementation, performs operational risk identification, measurement, monitoring and control activities, presents regular and ad-hoc risk level reports to the relevant risk assessment bodies for internal management, monitors violations of limits and reports on their implementation in accordance with established escalation procedures, assists with the implementation of effective risk management practices, assesses the inherent risks of all new products, processes or services of the Bank. The Credit Risk Assessment Unit performs analysis and drafts opinions on credit and other transactions proposed for approval by the business units in the Bank.

Such mechanisms guarantee:

- Appropriate credit risk management methodologies and practices including an effective internal control system and reliable impairment assessments in accordance with IFRS 9 and the relevant supervisory guidelines.
- Identifying, assessing and measuring the credit risk in the Bank, from the individual instrument level to the portfolio level.
- Creating credit policies to protect the Bank against identified risks: collateral receivables from borrowers, performing a credible current credit assessment of borrowers and continuous monitoring of exposures against internal risk limits.
- Limiting exposure concentrations by asset type, counterparty, industry, credit rating, geographic location, etc.
- Establishing a robust control framework on the authorization and renewal structure of credit instruments.
- Development and maintenance a risk classification of the Bank for the categorization of exposures according to the degree of risk of default. Risk categories are subject to regular review.
- Development and maintenance of the Bank's processes for measuring the expected credit losses (ECL), including credit risk monitoring, the implementation of forecast information and ECL measurement methods.
- Ensuring that the Bank has policies and procedures in place to properly maintain and approve the models used to estimate and measure ECL.
- Creating a reliable accounting assessment and credit risk measurement process that provide a strong basis for common systems, tools and data for credit risk assessment and ECL reporting. Providing advice, guidance, and specialized skills to business units to promote best banking practices for credit risk management.

The Internal Audit function performs regular checks to ensure that the controls and procedures established are appropriately developed and implemented.

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Customer risk and internal rating

In order to effectively identify and manage credit risk, the Bank has established a unit that performs credit risk assessment upon initial approval of corporate exposures, as well as periodic monitoring and analysis of the financial position and creditworthiness of borrowers.

The analysis of borrowers' financial position covers indicators such as:

- Capital and capital structure;
- Return on owned and borrowed capital;
- Return on assets;
- General, fast and absolute liquidity ;
- Financial autonomy;
- Revenue growth and profitability;
- Amount of EBIDTA;
- Growth and volume of sales and estimated cash inflows;
- State of the market or business segment in which the client operates; market positions of the client;
- Implementation of contracts to and from counterparties;
- Information on economic and legal relationships;
- Information on relationships with public sector institutions and sites;
- History and timing of the activity, development and nature of the business;
- Goodwill;
- Appropriate and relevant macroeconomic information, as well as predicted macroeconomic information;
- Market value and eligibility of the collateral and coverage of the debt with collateral;
- Others;

In order to minimize credit risk and as additional protection, the Bank also requires the provision of collateral by borrowers, with collaterals differentiated by degree of acceptability. In the process of managing the exposures, the Bank may require additional collateral in relation to the originally provided, for example, upon the occurrence of impairment indications or when the market value of the collateral is changed.

In conducting periodic reviews of exposures and borrowers, the credit risk assessment unit shall also consider the existence of impairment indicators, which the Bank considers to be objective evidence of impairment of the exposure, such as:

- Significant financial difficulty of the issuer or the debtor, leading to impossibility to pay the obligations;
- Breach of a contractual term such as non-performance or default; violation of covenants or other conditions set forth in the agreement;
- The Bank, for economic or contractual reasons, related to a financial difficulty on the part of the debtor, makes discounts to the debtor, which would not have been made in other circumstances;
- Probability of the debtor or related parties being declared bankrupt or debtor subject to another financial rehabilitation;
- Extinction of an active market for this financial asset due to financial difficulties;
- Significant overdue public liabilities or liabilities to employees;
- The debtor has requested extra funding from the Bank due to financial difficulties;
- Another bank has declared a debtor loan for early payment;
- Significant impairment of the collateral value, which violates the Bank's collateral coverage requirements (where the Bank is unable to negotiate the provision of collateral or a reduction in the exposure;

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- A material decline in equity that could lead to a collapse in the debtor's financial condition and / or affect its financial autonomy;;
- Negative EBITDA;
- Significant fall above 50% in the expected future cash flows;
- Significant fall above 50% in the turnover;
- Debt Service Coverage Ratio (DSCR) < 1%;
- Credit event announced by the International Swaps & Derivatives Association;
- Bond trading (temporary) has been suspended on the main market due to rumors or facts of financial difficulties;
- 5-year Credit Default Swaps (CDS) were over 1000 bps. within the last 12 months;

Based on the creditworthiness analysis, the Bank has adopted a system of risk classification of the client in the following categories:

- A – Minimal credit risk;
- B – Moderate credit risk;
- C – Moderate to increased credit risk;
- D – Increased credit risk;
- E – High credit risk;

The table below shows the balance sheet and off-balance sheet positions of the Bank on financial instruments and customer risk groups as at 31.12.2018 and 31.12.2019

As at 31.12.2019

Loans and advances	Gross carrying amount	Impairment
Corporate loans		
A	28,386	(2)
B	74,698	(128)
C	16,462	(128)
D	11,163	(32)
E	1,093	(225)
Without rating	265	(219)
Total corporate loans	132,067	(734)
Retail loans	46,206	(1,895)
Total loans and advances	178,273	(2,629)

Debt and equity securities	Gross carrying amount	Impairment
A	38,382	(56)
B	15,663	(99)
C	1,552	-
Without rating	11,813	(2)
Total securities	67,410	(157)

Off-balance sheet positions	Issued bank guarantees	Unused credit commitments	Provisions
A	733	2,476	23
B	4,136	2,397	9
C	74	681	9
D	1,154	284	6
E	0	0	0
Without rating	0	17	0
Retail loans	35	5,707	26
Total off-balance sheet positions	6,132	11,562	73

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As at 31.12.2018

Loans and advances	Gross carrying amount	Impairment
Corporate loans		
A	30,414	(19)
B	52,513	(389)
C	15,234	(9)
D	10,864	(20)
E	2,258	(353)
Without rating	432	(222)
Total corporate loans	111,715	(1,012)
Retail loans	34,884	(2,017)
Total loans and advances	146,599	(3,029)

Debt and equity securities	Gross carrying amount	Impairment
A	32,017	(97)
B	16,784	(53)
C	4,383	(41)
Without rating	11,111	(2)
Total securities	64,295	(193)

Off-balance sheet positions	Issued bank guarantees	Unused credit commitments	Provisions
A	2,872	2,055	19
B	2,020	505	5
C	150	854	4
D	1,107	17	2
E	-	-	-
Without rating	-	24	-
Retail loans	9	4,905	27
Total off-balance sheet positions	6,158	8,360	57

Identification of the significant increase in credit risk and recognition of credit losses

As part of the exposure management process and in order to effectively identify, monitor, manage and measure credit risk in the statement of financial position, the Bank also carries out the classification of its risk exposures and recognition of credit losses based on the following three main categories: Phase 1, Phase 2, and Phase 3.

Phase 1 classifies initially created financial assets (excluding those purchased or initially created with the impairment loan) and assets that are serviced in accordance with their contractual cash flows.

When indications of a significant increase in credit risk arise, the Bank classifies its risk exposures in Phase 2 and Phase 3.

To determine the significant increase in credit risk, the Bank applies the rebuttable presumption that it is present when the contractual cash flow arrears exceed 30 days. These exposures are classified in Phase 2.

In case of overdue financial asset over 90 days, the Bank classifies it in Phase 3.

If the Bank has reasonable information that there is no significant increase in credit risk, despite the existence of past due delay, the presumption does not apply. In order to make such an assessment, the Bank performs an individual analysis of the financial, legal and factual status of the asset and the client, based on the above-described indicators defining the client's risk.

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The significant credit risk increase is assessed at each reporting date.

The Bank aims to identify a significant increase in credit risk and to recognize credit losses over the life of the financial instrument before it becomes overdue. For groups of financial assets, such as exposures to individuals, the nature of which does not imply an appreciable increase in credit risk prior to the occurrence of past due, an extrapolated probability of default on the product level and / or segment is used based on the Bank's historical experience. Collective assessment of the significant increase in credit risk is performed on all financial assets or groups of customers with similar characteristics where there is no need or need for individual measurement.

Whether the credit risk is measured individually or collectively, the objective of the impairment requirements for the financial assets managed by the Bank is to recognize the expected credit losses for a 12-month period at each reporting date for exposures for which there is no significant increase in the credit risk and over the life of the instrument for assets whose credit risk has increased significantly in the period since their initial recognition. The date of initial recognition for credit commitments and financial guarantee contracts is the date on which the Bank has become a party to an irrevocable commitment.

The period for which the estimated credit losses are estimated is the maximum term of the contracts (including the extension options) during which the Bank is exposed to credit risk. For exposures that include both a loan and an undrawn loan commitment, expected credit losses are measured for the period over which the Bank is exposed to credit risk even if it exceeds the term of the contract.

For financial instruments classified in Phase 1, the Bank recognizes a fair value adjustment for expected credit losses for the 12-month period following the reporting date.

For financial instruments classified in Phase 2 and Phase 3, an allowance for expected credit losses is recognized over the life of the instruments.

The credit loss adjustment is calculated on the amount of exposure (Exposure at Default - EAD) at each reporting date.

For the size of its exposures, the Bank accepts its gross carrying amount plus unused credit commitments and financial guarantees multiplied by the Credit Conversion Factor (CCF). In this way, a loss correction is calculated and recognized as a result of expected credit losses on balance sheet and off-balance sheet positions.

Credit loss is the present value of the difference between the contractual cash flows due and the flows that the Bank expects to receive. Expected credit losses are the weighted probability estimates of credit losses, i.e. the present value of the entire cash deficit.

In order to measure the expected credit losses, the Bank uses a calculation model whose input parameters are the risk indicators Probability of Default (PD) and the Loss given Default from uncovered exposures (LGD uncovered), representing respectively the probability of a counterparty's given period of default and the ratio of loss on unsecured exposure, due to default of debtor to the amount of exposure in the moment of non-performance. Expected credit losses are measured using the weighted average of the credit losses, with weights serving as the respective probability of default.

In the case of collateralised exposures, the value of the expected cash flows from the realization of the collateral, which reduces the amount of the exposure at the time of default, is taken into account in order to determine the credit loss. The expected cash flow from the realization of the collateral is determined on the basis of the value, timing and costs associated with its realization and taking into account the time value of money.

Measurement of the risk parameters based on the Bank's historical experience

The risk parameters involved in the Bank's expected credit loss calculation model are estimated on the basis of historical experience for PDs, the Loss given default from uncovered exposures (LGD uncovered) and the extent of off-balance-sheet engagements (CCF), as well as on the basis of the forecasts for the development of the macroeconomic environment.

The historical level of default (DR) is determined based on past data for breach of contractual cash flows and resulted in events of exposures' non-performance.

The bank calculates the historical default level depending on the segment of its borrowers, as for corporate customers the calculations are made at client level and for retail exposures on the basis of homogeneous creditworthy portfolios and product groups (characterized by similar characteristics, behavior and management) . For this purpose, the Bank has divided its products for individuals into mortgage loans, consumer loans and consumer loans, secured by cash, commodities, overdrafts, credit cards, etc. Within the same group a further distinction is made depending on the exposure phase, as the basic principle in the calculation, it is within the scope of the analysis that only exposures that are served at the beginning of the period under review are covered. The historical default level is calculated as the arithmetic mean of the number of customers who served at the beginning of the period but failed in the next 12 months to the total number of customers served at the beginning of the 12-month period.

For exposures to counterparties, including institutions, issuers of debt securities or counterparties under repurchase agreements, the Bank uses PD values from global financial data markets (Bloomberg) or ECAI credit ratings.

The LGD uncovered parameter evaluation is based on historical loss data from unsecured default exposures and measures the ratio of the loss from these exposures to their size at the default date. The calculation of the parameter is made separately for product groups including retail exposures that are not collateralised by collateral, recognized for impairment. The Credit Conversion Factor (CCF) is the ratio of the portion of the current unabsorbed amount of an off-balance sheet commitment that could be absorbed to the entire uncommitted amount of the commitment. The CCF assessment is done at the product group level and, in the absence of sufficient historical data for the group, as well as with the guarantees issued by the Bank, the CCF is accepted at 100%.

Inclusion of information for future periods

Integration of the macroeconomic environment into the assessment of the risk parameters involved in the impairment is based on a one-factor linear regression analysis. This approach builds a linear relationship between an independent z variable (macroeconomic factor) and a given risk factor.

The Bank uses estimates that are available without incurring unnecessary costs or effort in assessing the significant increase in credit risk as well as in the measurement of ECL. The Bank uses data based on external and internal information to compile a baseline scenario for a future forecast of the relevant economic variables as well as other possible scenarios. The external information used includes economic data and forecasts published by governmental organizations and regulatory bodies.

The Bank applies the forecasts for the development of the macroeconomic indicators in the regression model by conservatively implementing them in the risk parameters involved in the impairment. The Bank has identified key credit and credit loss factors for each portfolio of financial instruments and has used a statistical analysis of historical data to assess the links between macroeconomic variables and credit risk

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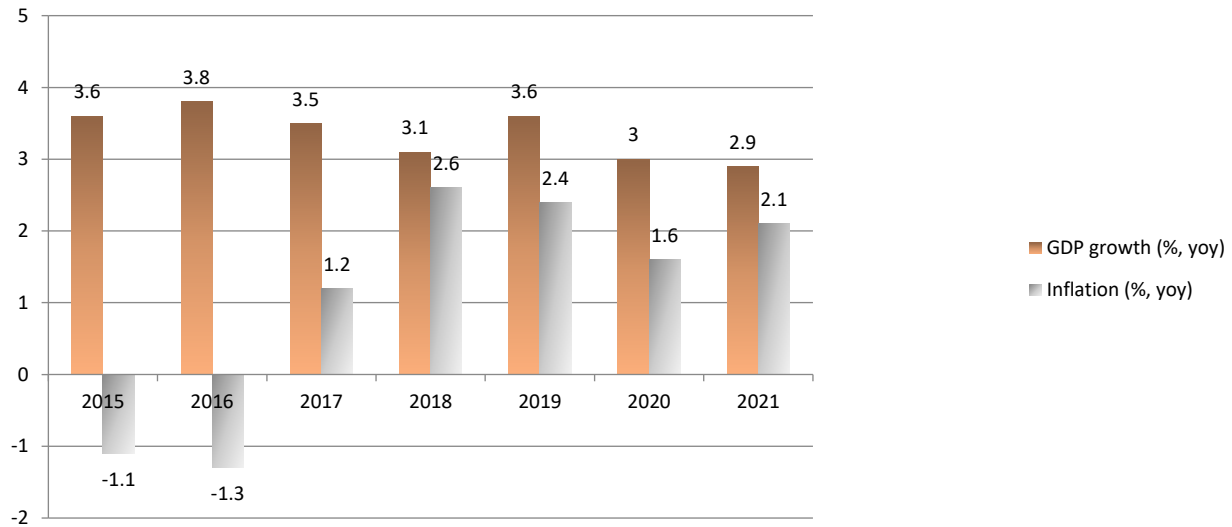
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and credit losses. The Bank has not made any changes to the valuation techniques or material assumptions made during the reporting period.

The table below summarizes the main macroeconomic indicators included in the economic scenarios used as at 31 December 2019 for the following years, for the Republic of Bulgaria, the country in which the Bank operates and the country that has an impact on the ECL.

Key macroeconomic indicators	Reporting data			Forecast		
	2016	2017	2018	2019	2020	2021
GDP (BGN mln)	3.9	3.8	3.1	3.7	3.6	3.4
GDP (actual growth, %)	-0.5	1.8	2.3	2.6	1.9	2.1
Coefficient of unemployment (%)	7.6	6.2	5.2	4.6	4.3	4.1

Source: MF, NSI, BNB



* Data from European Commission's report published in the fall of 2019.

Based on an analysis of historical data over the past 5 years, the expected links between key performance indicators of default and loss given default values for different portfolios of financial assets have been assessed.

The above expectations of the European Commission presented in the chart largely overlap with the BNB's forecast for key macroeconomic indicators for the period 2019 - 2021. The projected change in the macro-environment does not justify an increase in PD values, according to the Risk Parameter Assessment Methodology.

The Bank has analyzed the sensitivity of how the expected credit losses in the underlying portfolios will change if the key assumptions used to calculate the expected credit losses change. The results of the analysis are summarized in the table below:

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2019		
Changes in the expected credit losses in BGN thousands as a result of a 1% change in the basic parameters	Effect on net profit	Effect on net profit
Parameter change	+1%	-1%
Probability of default (PD)	(268)	266
Loss given default (LGD)	(29)	32

2019		
Changes in expected credit losses in BGN thousands as a result of a 1% change in expected levels of macroeconomic factors	Effect on net profit	
Change in parameter PD	+0.36%	
Macrofactors, incl. unemployment impacting on the loan portfolio of individuals	(45)	

2018		
Changes in the expected credit losses in BGN thousands as a result of a 1% change in the basic parameters	Effect on net profit	Effect on net profit
Parameter change	+1%	-1%
Probability of default (PD)	(228)	224
Loss given default (LGD)	(28)	31

2018		
Changes in expected credit losses in BGN thousands as a result of a 1% change in expected levels of macroeconomic factors	Effect on net profit	
Change in parameter PD	+1.22%	
Macrofactors, incl. unemployment impacting on the loan portfolio of individuals	(124)	

Credit quality

The Bank monitors the credit risk for each category or individual financial instrument.

The analysis of the Bank's credit risk concentrations for a given category of financial assets is presented in the following tables. Unless explicitly stated, for financial assets the amounts in the table represent gross carrying amounts. For credit commitments and financial guarantee contracts, the amounts in the table respectively represent the amounts committed as commitments or are guaranteed.

Granted resources and deposits of banks	2019	2018
	BGN '000	BGN '000
Consentration by sector		
Central banks	49,345	36,547
Bulgarian retail banks	13,871	13,427
Foreign retail banks	7,278	2,742
Total	70,494	52,716

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Granted credits and advances to clients at amortised cost	2019	2018
	BGN '000	BGN '000
Consentration by sector *		
Retail banking:	46,206	34,884
Mortgage	16,345	12,100
Unsecured lending	29,861	22,784
Corporate:	104,603	96,873
Consumer goods and services linked to the economic cycle	17,079	13,211
Basic consumer goods	6,563	4,657
Energy	224	288
Finance	33,097	35,761
Healthcare	115	135
Industry	25,676	25,616
Information technology	61	308
Raw materials	7,528	8,412
Real estate	14,226	8,455
Public services / utilities and others	34	30
Total	150,809	131,757

* according to the sectoral nomenclature of the GICS

Concentration by regions		
Europe	150,790	131,584
Bulgaria	150,790	131,584
Other countries:	19	173
Austria	2	10
China	17	18
USA	-	145
Others	-	-
Total	150,809	131,757

Loan commitments	2019	2018
	BGN '000	BGN '000
Concentration by sector		
Retail banking:	5,707	4,906
Mortgage	183	237
Unsecured lending	5,524	4,669
Corporate:	5,855	3,455
Consumer goods and services linked to the economic cycle	997	671
Basic consumer goods	1,021	855
Energy	-	4
Finance	424	42
Healthcare	778	415
Industry	869	630
Information technology	610	510
Raw materials	1,073	62
Real estate	11	202
Public services / utilities and others	72	64
Total	11,562	8,361

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Concentration by regions

Europe	11,531	8,359
Bulgaria	11,531	8,359
Another countries:	31	2
Austria	8	-
China	3	2
Russia	20	-
Others	-	-
Total	11,562	8,361

Contracts for financial guarantees

	2019	2018
	BGN '000	BGN '000
Concentrated by sector		
Retail banking:	35	9
Mortgage	-	-
Unsecured lending	35	9
Corporate:	6,097	6,149
Consumer goods and services linked to the economic cycle	1,298	1,246
Basic consumer goods	276	38
Energy	5	156
Finance	1,247	2,154
Healthcare	151	854
Industry	3,024	1,642
Information technology	50	-
Raw materials	25	25
Real estate	21	34
Public services / utilities and others	-	-
Total	6,132	6,158

Concentrated by regions

Europe	6,132	6,158
Bulgaria	6,132	6,158
Other countries:	-	-
Austria	-	-
China	-	-
USA	-	-
Others	-	-
Total	6,132	6,158

The following tables present an analysis of the Bank's credit exposure by exposure type, customer risk and Phase, without taking into account the effect of collateral and other credit facilities. Unless otherwise stated, financial assets are presented in the table at gross carrying amount. Credit commitments and guarantees are presented at the amount paid or guaranteed.

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2019

Loans and advances granted	2019			Total BGN'000
	12- month expected credit losses BGN'000	Phase 1 Expected credit losses for the whole period BGN'000	Phase 2 Expected credit losses for the whole period BGN'000	
Corporate loans				
A	28,386	-	-	28,386
B	72,689	-	2,009	74,698
C	16,172	23	267	16,462
D	9,894	1,269	-	11,163
E	-	-	1,093	1,093
Without rating	36	-	229	265
Total corporate loans	127,177	1,292	3,598	132,067
Retail exposures	43,166	412	2,628	46,206
Total loans and advances	170,343	1,704	6,226	178,273
Loss on impairment	(325)	(46)	(2,258)	(2,629)
Net balance loans and advances	170,018	1,658	3,968	175,644

Bank guarantees and outstanding credit commitments issued	2019			Total BGN'000
	12- month expected credit losses BGN'000	Phase 1 Expected credit losses for the whole period BGN'000	Phase 2 Expected credit losses for the whole period BGN'000	
Corporate loans				
A	3,209	-	-	3,209
B	6,533	-	-	6,533
C	755	-	-	755
D	1,438	-	-	1,438
E	-	-	-	-
Without rating	17	-	-	17
Total corporate loans	11,952	-	-	11,952
Retail exposures	5,725	7	10	5,742
Total off-balance-sheet positions	17,677	7	10	17,694
Provision	72	1	-	73

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2018

Loans and advances granted	2018			Total BGN'000
	12- month expected credit losses BGN'000	Phase 1 Expected credit losses for the whole period BGN'000	Phase 2 Expected credit losses for the whole period BGN'000	
Corporate loans				
A	30,198	-	-	216
B	51,722	-	-	791
C	15,234	-	-	-
D	10,864	-	-	-
E	1,009	-	-	1,248
Without rating	201	-	-	232
Total corporate loans	109,228			2,487
Retail exposures	32,102		353	2,429
Total loans and advances	141,330		353	4,916
Loss on impairment	(354)		(55)	(2,620)
Net balance loans and advances	140,976		298	2,296

Bank guarantees and outstanding credit commitments issued	2018			Total BGN'000
	12- month expected credit losses BGN'000	Phase 1 Expected credit losses for the whole period BGN'000	Phase 2 Expected credit losses for the whole period BGN'000	
Corporate loans				
A	4,927	-	-	-
B	2,525	-	-	-
C	1,005	-	-	-
D	1,124	-	-	-
E	-	-	-	-
Without rating	24	-	-	-
Total corporate loans	9,605			24
Retail exposures	4,899		8	7
Total off-balance-sheet positions	14,504		8	7
Provision	56		1	-

The Bank's investments in debt instruments measured at amortized cost in the amount of BGN 5,537 thousand are classified in Phase 1, with a corresponding impairment amounting to BGN 13 thousand as of 31 December 2019.

The following table summarizes the impairment loss at the end of the year by type of exposure.

Loss from impairment by type of asset	2019	2018
	BGN'000	BGN'000
Loans and advances to banks at amortized cost	-	3
Loans and advances to customers at amortized cost	2,629	3,029
Investments in debt securities at amortized cost	13	11
Debt instruments at fair value through other comprehensive income	144	181
Credit commitments	63	49
Financial guarantee contracts	10	8
Total	2,859	3,281

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The following table presents the movement between phases of the Bank's financial instruments in 2019 and 2018:

2019

Transfers between impairment phases (gross)	Gross carrying amount					
	Transfers between Phase 1 and Phase 2		Transfers between Phase 2 and Phase 3		Transfers between Phase 1 and Phase 3	
	From Phase 1 to Phase 2	From Phase 2 to Phase 1	From Phase 2 to Phase 3	From Phase 3 to Phase 2	From Phase 1 to Phase 3	From Phase 3 to Phase 1
Credit institution	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Loans and advances	1,673	125	151	3	2,188	-
<i>Corporate loans</i>	1,291	-	-	-	2,009	-
<i>Retail banking</i>	382	125	151	3	179	-
Total	1,673	125	151	3	2,188	-
Commitments and financial guarantees provided	6	10	3	-	3	2

2018

Transfers between impairment phases (gross)	Gross carrying amount					
	Transfers between Phase 1 and Phase 2		Transfers between Phase 2 and Phase 3		Transfers between Phase 1 and Phase 3	
	From Phase 1 to Phase 2	From Phase 2 to Phase 1	From Phase 2 to Phase 3	From Phase 3 to Phase 2	From Phase 1 to Phase 3	From Phase 3 to Phase 1
Credit institution	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Loans and advances	230	235	87	5	751	49
<i>Corporate loans</i>	-	-	-	-	583	-
<i>Retail banking</i>	230	235	87	5	168	49
Total	230	235	87	5	751	49
Commitments and financial guarantees provided	6	17	5	-	2	15

The tables below analyze the movement of impairment loss over the year by asset type.

2019

Movement of adjustments and provisions for credit losses	Opening balance 31.12.2018	Increases due to occurrence and acquisition	Discounts due to write-offs	Changes due to change in credit risk (net)	Decrease of the correction due to write-offs	Balance at the end of the period
Adjustments regarding financial assets without credit risk increase after initial recognition (phase 1)	(549)	(983)	1,080	(29)	-	(481)
Credit institutions	(3)	-	3	-	-	-
Debt securities	(192)	(196)	231	-	-	(157)
Loans and advances	(354)	(787)	846	(29)	-	(324)
<i>Corporate loans</i>	(123)	(187)	135	1	-	(174)
<i>Retail loans</i>	(231)	(600)	711	(30)	-	(150)
Adjustments regarding debt instruments with significant credit risk increase after initial recognition but without credit impairment (Phase 2)	(55)	(82)	49	42	-	(46)
Credit institutions	-	-	-	-	-	-
Loans and advances	(55)	(82)	49	42	-	(46)
<i>Corporate loans</i>	-	-	-	-	-	-
<i>Retail loans</i>	(55)	(82)	49	42	-	(46)
Adjustments regarding debt instruments with credit impairment (phase 3)	(2,620)	(406)	831	(75)	11	(2,259)
Credit institutions	-	-	-	-	-	-
Loans and advances	(2,620)	(406)	831	(75)	11	(2,259)
<i>Corporate loans</i>	(889)	(117)	461	(20)	5	(560)
<i>Retail loans</i>	(1,731)	(289)	370	(55)	6	(1,699)
Total credit loss adjustments	(3,224)	(1,471)	1,960	(62)	11	(2,786)
Commitments and financial guarantees (Phase 1)	56	154	(138)	-	-	72
Commitments and financial guarantees (Phase 2)	1	3	(3)	-	-	1
Commitments and financial guarantees (Phase 3)	-	3	(3)	-	-	-
Total provisions on commitments and financial guarantees	57	160	(144)	-	-	73

In 2019 the valuation methodology for calculating expected credit losses has not change.

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2018

Movement of adjustments and provisions for credit losses	Opening balance 31.12.2017	Increases due to occurrence and acquisition	Discounts due to write-offs	Changes due to change in credit risk (net)	Changes due to the updating of the institution's valuation methodology (Introduction of IFRS 9 - 01.01.2018)	Decrease of the correction due to write-offs	Balance at the end of the period
Adjustments regarding financial assets without credit risk increase after initial recognition (phase 1)	-	(848)	921	(90)	(532)	-	(549)
Credit institutions	-	(2)	-	-	(1)	-	(3)
Debt securities	-	(204)	87	-	(75)	-	(192)
Loans and advances	-	(642)	834	(90)	(456)	-	(354)
<i>Corporate loans</i>	-	(215)	347	(21)	(234)	-	(123)
<i>Retail loans</i>	-	(427)	487	(69)	(222)	-	(231)
Adjustments regarding debt instruments with significant credit risk increase after initial recognition but without credit impairment (Phase 2)	(35)	(142)	140	51	(69)	-	(55)
Credit institutions	(35)	(142)	140	51	(69)	-	(55)
Loans and advances	(35)	(142)	140	51	(69)	-	(55)
<i>Corporate loans</i>	-	-	15	(15)	-	-	-
<i>Retail loans</i>	(35)	(142)	125	66	(69)	-	(55)
Adjustments regarding debt instruments with credit impairment (phase 3)	(3,308)	(463)	673	(34)	497	14	(2,620)
Credit institutions	(3,308)	(463)	673	(34)	497	14	(2,620)
Loans and advances	(3,308)	(463)	673	(34)	497	14	(2,620)
<i>Corporate loans</i>	(1,031)	(98)	248	(7)	(1)	-	(889)
<i>Retail loans</i>	(2,277)	(365)	425	(27)	498	14	(1,731)
Total credit loss adjustments	(3,343)	(1,453)	1,734	(73)	(104)	14	(3,224)
Commitments and financial guarantees (Phase 1)	-	109	(145)	17	75	-	56
Commitments and financial guarantees (Phase 2)	-	17	(17)	(3)	4	-	1
Commitments and financial guarantees (Phase 3)	-	3	(5)	(14)	16	-	-
Total provisions on commitments and financial guarantees	-	129	(167)	-	95	-	57

The Bank's monitoring procedures show a significant increase in credit risk prior to default and, at the latest, when the exposure is 30 days past due. This is mainly the case for loans and advances to customers, and in particular for exposures in the retail banking segment, since corporate loans and other exposures have more information about the borrower used to identify a significant increase in credit risk. The table below presents an age analysis of the gross carrying amount of loans and advances to customers.

Loans and customer advances granted:	2019		2018	
	Gross carrying amount BGN'000	Loss from impairment BGN'000	Gross carrying amount BGN'000	Loss from impairment BGN'000
0-29 days	144,258	563	127,154	583
30-59 days	2,460	23	129	33
60-89 days	236	39	73	23
90-180 days	176	66	309	62
More than 181 days	3,679	1,938	4,092	2,328
Total	150,809	2,629	131,757	3,029

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Collaterals and other loan improvements

The Bank has collateral or other credit enhancements to reduce the credit risk associated with financial assets. The main types of collateral and the types of assets to which they are linked are listed in the table below. The collateral presented relates to instruments that are measured at fair value through OCI, amortized cost and fair value through profit and loss.

Type of receivable	Type of collateral
Loans granted and advances to banks	Not applicable
Mortgage loans	Residential and commercial real estate
Consumer credits	Assurance
Corporate loans	Contractual and legal mortgages; special pledges under the terms of the Public Health Insurance Act and the FIA, insurance policies
Investments in securities	Contractual and legal mortgages; special pledges under the terms of the Public Health Insurance Act and the FIA, insurance policies

During the year there was no change in the Bank's collateral recognition policy. More details on the collateral held for certain types of financial assets can be found below.

Mortgage lending

The Bank holds residential real estate as collateral for the mortgage loans it provides to its clients. The Bank monitors its exposure to retail mortgage lending using the loan-to-value ratio (LTV), which is calculated as the ratio of the gross loan amount - or the amount set aside for loan commitments - to the value of the collateral. The valuation of the collateral excludes any adjustments to the receipt and sale of the collateral. The value of the collateral is updated periodically. The tables below show mortgage exposures by LTV ranges.

Mortgage lending	2019		2018	
	Gross carrying amount	Loss from impairment	Gross carrying amount	Loss from impairment
LTV ratio	BGN'000	BGN'000	BGN'000	BGN'000
Less than 50%	2,949	-	2,758	(3)
51-70%	4,945	(1)	2,034	-
71-90%	7,834	-	6,370	-
91-100%	327	-	857	-
More than 100 %	290	-	81	-
Total	16,345	(1)	12,100	(3)

Credit commitments - Mortgage lending	2019		2018	
	Amount of the commitment	Loss from impairment	Amount of the commitment	Loss from impairment
LTV ratio	BGN'000	BGN'000	BGN'000	BGN'000
Less than 50%	85	-	139	-
51-70%	-	-	-	-
71-90%	-	-	-	-
91-100%	98	(1)	98	(1)
More than 100%	-	-	-	-
Total	183	(1)	237	(1)

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Assets acquired from collateral

In 2019, the Bank acquired one property worth BGN 594 thousand from credit collateral.

Compensation of financial assets and financial liabilities

In 2019 there is no compensation of financial assets with financial liabilities.

Summarized information regarding credit portfolio quality

The structure of the credit portfolio by type of customer is as follows.

	31.12.2019			
	Phase 1	Phase 2	Phase 3	Total carrying amount
	BGN'000	BGN'000	BGN'000	BGN'000
Private companies	87,988	1,291	3,600	92,879
Households and individuals	43,166	412	2,628	46,206
Financial companies	11,724	-	-	11,724
Credit cards	-	-	-	-
TOTAL BOOK VALUE	142,878	1,703	6,228	150,809
Impairment for uncollectability	(325)	(46)	(2,258)	(2,629)
TOTAL CARRYING AMOUNT	142,553	1,657	3,970	148,180

	31.12.2018			
	Phase 1	Phase 2	Phase 3	Total carrying amount
	BGN'000	BGN'000	BGN'000	BGN'000
Private companies	79,781	-	2,488	82,269
Households and individuals	32,103	352	2,429	34,884
Financial companies	14,603	-	-	14,603
Credit cards	1	-	-	1
TOTAL BOOK VALUE	126,488	352	4,917	131,757
Impairment for uncollectability	(354)	(55)	(2,620)	(3,029)
TOTAL CARRYING AMOUNT	126,134	297	2,297	128,728

Information on large exposures in the Bank's credit portfolio (initial exposures representing 10% or more of the Bank's regulatory eligible capital) at carrying amount as of 31 December 2019 and 2018 is presented in the table below:

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	As at 31 December 2019		As at 31 December 2018	
	<i>BGN'000</i>	<i>% from capital base</i>	<i>BGN'000</i>	<i>% from capital base</i>
Highest total exposure to the clients' group	44,278	126.76	32 032	96.42
Total amount of the biggest 5 exposures to clients	53,021	151.79	43,024	129.50
Total amount of all big exposures (above 10% from capital base)	85,388	244.45	64,716	194.79

	As at 31.12.2019	As at 31.12.2018
Secured with cash and government securities	29,420	23,759
Secured with mortgage	61,001	55,980
Financial insurance	10,157	10,981
Pledge of corporate securities	4,720	2,571
Pledge of movable property	8,101	5,917
Pledge of a commercial enterprise	821	1,006
Pledge of receivables	2,369	6,075
Secured with warranty	11,115	7,839
Not secured	23,105	17,629
Impairment for uncollectability	(2,629)	(3,029)
Total	148,180	128,728

Business Sector, classification group and delays as at 31 December 2019:

Sector	Amount Group	Number of deals	Debt	including defaults on			Expected credit loss	Unabsorbed commitments
				Principal	Interest	Court Receivables		
Retail	performing	6,592	43,578	33	14	-	196	5,697
	non-performing	917	2,628	160	69	2,163	1,698	10
Total		7,509	46,206	193	83	2,163	1,894	5,707
Corporate	performing	165	101,003	15	1	-	175	5,855
	non-performing	11	3,600	194	122	214	560	-
Total		176	104,603	209	123	214	735	5,855
	Total portfolio	7,685	150,809	402	206	2,377	2,629	11,562

Business Sector, classification group and delays as at 31 December 2018:

Sector	Amount Group	Number of deals	Debt	including defaults on			Expected credit loss	Unabsorbed commitments
				Principal	Interest	Court Receivables		
Retail	performing	5,807	32,455	26	13	-	286	4,898
	non-performing	902	2,429	257	130	1,908	1,731	7
Total		6,709	34,884	283	143	1,908	2,017	4,905
Corporate	performing	149	94,385	6	1	-	123	3,456
	non-performing	13	2,488	379	128	213	889	-
Total		162	96,873	385	129	213	1,012	3,456
	Total portfolio	6,871	131,757	668	272	2,121	3,029	8,361

30.2 Liquidity risk

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

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The Bank meets the obligations and limitations imposed by the Law on credit institutions and Ordinance 11 of Bulgarian National Bank for management and supervision of liquidity, as well as liquidity regulatory requirements according to EU Regulation 575/2013. The specialized collective body for liquidity management in the Bank is the Assets and Liabilities Management Committee. It applies the adopted by the Bank's management policy for liquidity risk management.

The quantitative measure of liquidity risk, in accordance with the regulations of the BNB, is the Liquidity Coverage Ratio. The ratio of liquidity coverage as at 31 December 2019 is 433.45% (2018: 229.19%) and significantly exceeds the legal requirement of 100%. The Bank monitors additional liquidity indicators, such as concentration of counterparty financing and capacity to generate liquidity by issuers, product types and currencies, interest rates, and renewal of financing.

The Bank maintains a considerable volume of highly liquid assets - cash on hand and at the BNB, in the amount of BGN 56,537 thousand, which guarantees it smoothly meeting its liquidity needs. As of 31 December 2019, their share is approximately 16% of the Bank's total assets. As an additional instrument for providing high liquidity, the Bank uses the resources and advances provided by financial institutions on current accounts. These are basically deposits with international and Bulgarian financial institutions with maturity of up to 7 days, as of 31 December 2019, those not encumbered with a pledge amount to BGN 17,475 thousand and represent 4.8% of total assets. Government securities held by the Bank that meet the requirements for liquid assets in accordance with Art. 8 of BNB Ordinance No. 11 and are not pledged as collateral amount to BGN 8,134 thousand and represent 2.24% of the Bank's assets. By maintaining more than 20% of its assets in liquid assets, the Bank is able to meet all payment needs for its financial liabilities.

The allocation of the Bank's financial assets and liabilities as of 31 December 2019, according to their remaining maturity, is as follows:

2019	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	More than 1 year	Total
FINANCIAL ASSETS					
Cash and balances with central banks	56,537	-	-	-	56,537
Financial assets at fair value through profit or loss	-	-	24,873	629	25,502
Debt instruments at fair value through other comprehensive income	107	905	4,088	29,510	34,610
Equity instruments at fair value through other comprehensive income	-	-	-	1,617	1,617
Placements and deposits with banks	18,236	-	-	2,913	21,149
Loans and receivables from customers	2,007	23,772	36,172	86,229	148,180
Receivables under repurchase agreements for securities	27,464	-	-	-	27,464
Debt instruments measured at amortized cost	-	-	-	5,524	5,524
Investments in associates and subsidiaries	-	-	-	451	451
TOTAL FINANCIAL ASSETS	104,351	24,677	65,133	126,873	321,034
FINANCIAL LIABILITIES					
Deposits from credit institutions	-	1,622	-	-	1,622
Loans from banks	-	-	-	-	-
Deposits from clients other than credit institutions	201,298	26,983	68,708	23,962	320,951
TOTAL FINANCIAL LIABILITIES	201,298	28,605	68,708	23,962	322,573

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The allocation of the Bank's financial assets and liabilities as of 31 December 2018, according to their remaining maturity, is as follows:

2018	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	More than 1 year	Total
FINANCIAL ASSETS					
Cash and balances with central banks	43,817	-	-	-	43,817
Financial assets at fair value through profit or loss	-	-	23,923	-	23,923
Debt instruments at fair value through other comprehensive income	102	910	4,478	27,922	33,412
Equity instruments at fair value through other comprehensive income				1,171	1,171
Placements and deposits with banks	14,841	-	152	1,173	16,166
Loans and receivables from customers	1,256	4,154	33,103	90,215	128,728
Receivables under repurchase agreements for securities	14,842	-	-	-	14,842
Debt instruments measured at amortized cost	-	-	-	5,597	5,597
Investments in associates and subsidiaries	-	-	-	451	451
TOTAL FINANCIAL ASSETS	74,858	5,064	61,656	126,529	268,107
FINANCIAL LIABILITIES					
Deposits from credit institutions	1,562	-	-	-	1,562
Loans from banks	-	-	-	23,000	23,000
Deposits from clients other than credit institutions	149,616	19,172	49,254	20,594	238,636
TOTAL FINANCIAL LIABILITIES	151,178	19,172	49,254	43,594	263,198

30.3 Market risk

Market risk is the current or potential risk to income and capital arising from adverse changes in exchange rates, market interest rates, prices of equity instruments, bonds or commodities. Market risk refers to off-balance sheet items and off-balance sheet items that are subject to losses arising from movements in market prices. According to the risk factors to which the Bank's positions are exposed, market risk is mainly subdivided into the following subcategories:

- Foreign currency risk related to the foreign currency positions arising as a result of the overall activity of the Bank;
- Price risk related to equity instrument positions;
- General and specific interest risk related to debt securities positions (measured at fair value)

The Bank measures the market risk by using the indicator Value at risk (VaR). This is a comprehensive quantitative measure of risk for a given portfolio, which indicates the maximum potential loss from a financial portfolio within a specific time frame, at a specific level of fiduciary deposits and normal market conditions. The control processes for market risk include daily measurement, monitoring and reporting the limits of volume, potential loss and value at risk /VaR (99 %, 1 day)/.

Value at risk /VaR (99 %, 1 day)/ at the end of the reporting period:

31.12.2019	Value at risk /VaR (1 day, 99%)/
PORTFOLIO	
Foreign currency portfolio	1
Portfolio of shares held for trading	221
Portfolio of equity instruments at fair value through other comprehensive income	75
Debt securities portfolio measured at fair value through other comprehensive income	589

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Value at risk /VaR (99 %, 1 day)/ at the end of the reporting period:

31.12.2018	Value at risk /VaR (1 day, 99%)/
PORTFOLIO	
Foreign currency portfolio	0
Portfolio of shares held for trading	110
Portfolio of equity instruments at fair value through other comprehensive income	52
Debt securities portfolio measured at fair value through other comprehensive income	408

In addition to measuring the value at risk on a daily basis, the Bank monitors and analyzes the value at risk in times of stress. According to the adopted methodology, historical data on the risk factors affecting the value of positions in the Bank's individual financial portfolios are analyzed, determining the most critical period with the highest volatility. The valuation of price risk under stress conditions resulting from adverse changes in stock prices in the commercial and bank portfolios is carried out by calculating the value at risk through a Monte Carlo simulation, multiplying the calculated daily risk value under normal conditions by a stress factor reflecting the increased volatility in stock prices during the crisis period compared to what was reported under normal conditions.

	31.12.2019	Value at risk /VaR (1 day, 99%)/	Value at risk /sVaR (1 day, 99%)/ under stress
Shares portfolio		296	1,155
	31.12.2018	Value at risk /VaR (1 day, 99%)/	Value at risk /sVaR (1 day, 99%)/ under stress
Shares portfolio		162	631

30.4 Currency risk

Currency risk is the potential opportunity to realize a loss for the Bank as a result of changes in exchange rates. In the Republic of Bulgaria, the exchange rate of the Bulgarian lev to the euro is fixed by a Currency Board.

The fixed exchange rate is regulated in Art. 29 of the Bulgarian National Bank Act (BNBA). At the end of January 2020, a draft supplement to Art. 29 of the BNBA, the purpose of which is to ensure the compliance of the internal regulatory framework with the European regulatory framework governing the administrative process and operational procedures for the approval of exchange rates under the conditions of the currency exchange mechanism (ERM II). This compliance is a prerequisite for joining the exchange rate mechanism. According to Parliament's decision, when negotiating a central exchange rate to the euro, the Minister of Finance and the Governor of the BNB are obliged to propose, maintain and vote a central position of BGN 1.955583 per euro. Bulgaria does not participate in the Exchange Rate Mechanism II at a central rate between the euro and the lev other than BGN 1.95583 for one euro.

The Bank's position in euro does not present any risk to the Bank.

The currency structure of financial assets and liabilities at carrying amount as at 31 December 2019 is as follows:

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	BGN	EUR	Other	Total
FINANCIAL ASSETS				
Cash and balances with central banks	49,330	5,967	1,240	56,537
Financial assets at fair value through profit or loss	25,502	-	-	25,502
Debt instruments at fair value through other comprehensive income	15,902	18,708	-	34,610
Equity instruments at fair value through other comprehensive income	191	-	1,426	1,617
Placements and deposits with banks	83	10,214	10,852	21,149
Loans and receivables from customers	120,476	27,704	-	148,180
Receivables under repurchase agreements for securities	27,464	-	-	27,464
Debt instruments measured at amortised cost	5,524	-	-	5,524
Investments in associates and subsidiaries	451	-	-	451
TOTAL ASSETS	244,923	62,593	13,518	321,034
FINANCIAL LIABILITIES				
Deposits from credit institutions	-	-	1,622	1,622
Loans from banks	-	-	-	-
Deposits from clients other than credit institutions	215,895	93,258	11,798	320,951
TOTAL LIABILITIES	215,895	93,258	13,420	322,573
NET EXPOSURE	29,028	(30,665)	98	(1,539)

The currency structure of financial assets and liabilities at carrying amount as at 31 December 2018 is as follows:

	BGN	EUR	Other	Total
FINANCIAL ASSETS				
Cash and balances with central banks	25,430	17,251	1,136	43,817
Financial assets at fair value through profit or loss	23,923	-	-	23,923
Debt instruments at fair value through other comprehensive income	17,850	15,562	-	33,412
Equity instruments at fair value through other comprehensive income	191	-	980	1,171
Placements and deposits with banks	792	5,161	10,213	16,166
Loans and receivables from customers	100,384	28,344	-	128,728
Receivables under repurchase agreements for securities	14,842	-	-	14,842
Debt instruments measured at amortised cost	5,597	-	-	5,597
Investments in associates and subsidiaries	451	-	-	451
TOTAL ASSETS	189,460	66,318	12,329	268,107
FINANCIAL LIABILITIES				
Deposits from credit institutions	-	-	1,562	1,562
Loans from banks	23,000	-	-	23,000
Deposits from clients other than credit institutions	158,080	69,864	10,692	238,636
TOTAL LIABILITIES	181,080	69,864	12,254	263,198
NET EXPOSURE	8,380	(3 546)	75	4,909

As of 31 December 2019 and 2018, financial assets and liabilities in the "Other currencies" category are predominantly USD and CHF denominated financial assets and liabilities.

30.5 Interest rate risk

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

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The Bank uses the GAP analysis method (gap analysis, misbalance method) to measure and assess the interest rate risk. Using this method the management of the Bank identifies the sensitivity of the expected income and expenses to changes in interest rates.

The GAP analysis method aims to determine the exposure of the Bank, as a total amount and by separate types of financial assets and liabilities, in relation to expected interest rate fluctuations and their effect on the net interest income. It assists the management of assets and liabilities and is also an instrument for securing sufficient and stable net interest profitability.

The imbalance between the Bank's interest-bearing assets and liabilities as of 31 December 2019 is as follows:

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Total
INTEREST-BEARING ASSETS					
Debt instruments at fair value through other comprehensive income	107	905	4,088	29,510	34,610
Placements and deposits with banks	18,236	-	-	2,913	21,149
Loans and advances to customers*	20,702	119,746	4,734	2,998	148,180
Receivables under repurchase agreements for securities	27,464	-	-	-	27,464
Debt instruments at amortised cost	-	-	-	5,524	5,524
TOTAL INTEREST-BEARING ASSETS	66,509	120,651	8,822	40,945	236,927
INTEREST-BEARING LIABILITIES					
Deposits from credit institutions	1,622	-	-	-	1,622
Loans from banks	-	-	-	-	-
Deposits from clients other than credit institutions	201,298	26,983	68,708	23,962	320,951
TOTAL INTEREST-BEARING LIABILITIES	202,920	26,983	68,708	23,962	322,573
IMBALANCE BETWEEN INTEREST-BEARING ASSETS AND LIABILITIES, NET	(136,411)	93,668	(59,886)	16,983	(85,646)

* Fixed income instruments are allocated according to their residual term to maturity and variable income instruments to the residual term until the next interest rate change date.

As of 31 December 2019 the effect of a stress test for a parallel upward change in market interest rates by 100 basis points on the net interest income over 1 year amounts to approximately minus BGN 2,132 thousand.

The imbalance between the Bank's interest-bearing assets and liabilities as of 31 December 2018 is as follows:

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Total
INTEREST-BEARING ASSETS					
Debt instruments at fair value through other comprehensive income	102	910	4,478	27,922	33,412
Placements and deposits with banks	14,841	-	152	1,173	16,166
Loans and advances to customers*	1,094	117,997	6,460	3,177	128,728
Receivables under repurchase agreements for securities	14,842	-	-	-	14,842
Debt instruments at amortised cost	-	-	-	5,597	5,597
TOTAL INTEREST-BEARING ASSETS	30,879	118,907	11,090	37,869	198,745

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INTEREST-BEARING LIABILITIES					
Deposits from credit institutions	1,562	-	-	-	1,562
Loans from banks	-	-	-	23,000	23,000
Deposits from clients other than credit institutions	149,616	19,172	49,254	20,594	238,636
TOTAL INTEREST-BEARING LIABILITIES	151,178	19,172	49,254	43,594	263,198
IMBALANCE BETWEEN INTEREST -BEARING ASSETS AND LIABILITIES, NET	(120,299)	99,735	(38,164)	(5,725)	(64,453)

* Fixed income instruments are allocated according to their residual term to maturity and variable income instruments to the residual term until the next interest rate change date.

As of 31 December 2018 the effect of a stress test for a parallel upward change in market interest rates by 100 basis points on the net interest income over 1 year amounts to approximately minus BGN 1,312 thousand.

30.6 Operational risk

Operational risk is the risk of loss arising from inadequate or poorly functioning internal processes, people and systems, or from external events, including legal risk. Operational risk shall be identified and measured as comprehensively as possible in order to identify appropriate measures for its avoidance, reduction, transfer or conscious acceptance. The strategy of Texim Bank AD is to minimize operational risk. The guiding principle is that factors that mitigate operational risk (the principle of "four eyes", embedded controls, etc.) be incorporated into the core business processes.

31. CAPITAL MANAGEMENT

The Bank has set itself the objective of maintaining high levels of capital adequacy consistent with its risk profile. The capital management policy seeks to provide adequate coverage of risks arising in the ordinary course of banking as well as risks arising from unforeseen circumstances.

The Bank is subject to regulation regarding the fulfillment of the capital adequacy requirements according to the Bulgarian legislation. In Bulgaria, the registered share capital of a bank cannot be less than BGN 10 million, and there is an additional requirement at any time that the Bank's own capital (capital base) should not fall below this certain minimum.

The Bank's management effectively manages its capital position, with the main priority being compliance with the regulatory requirements for capital adequacy, maintaining a sufficient amount of capital to provide an adequate level of coverage of the assumed risks, and a capital buffer for overcoming the conditions of stress without jeopardizing the Bank's business activities.

The Bank's capital adequacy ratios exceed the statutorily required minimum ratios, their values as at 31 December 2019 being as follows:

- Common equity Tier 1 capital ratio – 15.55%, with a legally required ratio of 4.5%;
- Tier 1 capital ratio – 15.55%, with a legally required ratio of 6%;
- Total capital adequacy ratio – 15.55%, with a legally required ratio of 8%.

In accordance with the requirements of BNB Ordinance No. 8 on capital buffers, the Bank maintains a capital buffer of 2.5% of its total risk exposure, a systemic risk buffer of 3% of risk-weighted exposures located on the territory of the Republic Bulgaria, and a countercyclical buffer of 0.5% of risk-weighted exposures. As of 31 December 2019, their amounts are, respectively, BGN 5,615 thousand (2018: BGN 5,003 thousand), BGN 6,535 thousand (2018: BGN 5,863 thousand) and BGN 1,007 thousand (2018: 0 thousand) BGN).

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The common equity Tier 1 capital surplus reported as of 31 December 2019 amounts to BGN 24,824 thousand (2018: BGN 24,218 thousand) and fully complies with the regulatory capital buffer requirements.

32. OTHER REGULATORY DISCLOSURES

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

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

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

The aggregated quantitative indicators on an individual basis related to the statutory disclosures required by the Credit Institutions Act are as follows:

	2019	2018
Total operating income	15,550	14,156
Financial result before taxation	298	159
Return on assets (%)	0,082	0,053
Number of full-time employees as at 31 December	299	302

The Bank provides services as an investment intermediary under the provisions of the Public Offering of Securities Act (POSA). As an investment intermediary the Bank must meet certain requirements to protect the interests of customers under the Markets in Financial Instruments Law and Regulation 38 issued by the Financial Supervision Commission (FSC). The Bank has established and applies an organization related to the execution and performance of contracts with customers, information requests from clients, record keeping and storage of client assets, according to the regulations and in particular the requirements of Regulation 38, Art. 28-31. The Bank has established rules and procedures for internal controls to ensure compliance with the regulations referred to above.

33. COMMITMENTS AND CONTINGENCIES

The Bank's contingent and irrevocable commitments consist of guarantees issued, unutilized funds on agreed loans and overdrafts.

As of 31 December 2019 and 2018, the Bank has issued guarantees to clients in favor of third parties in the amount of BGN 6,132 thousand and BGN 6,158 thousand respectively, which represent guarantees of good performance secured by blocked funds at the Bank or other customer assets.

The outstanding commitments on agreed loans and overdrafts as of 31 December 2019 and 2018 amount to BGN 11,562 thousand and BGN 8,361 thousand, respectively.

As of 31 December 2019 and as at the date of approval of these separate financial statements, 2 court proceedings have been initiated against the Bank (2018: 2 court proceedings).

34. POST BALANCE SHEET EVENTS

No adjusting events or significant non-adjusting events have occurred between the date of the financial statement and the date of its approval for issue, except for the following non-adjusting events:

(1). By Decision No. 237-E from 26.03.2020, the Financial Supervision Commission confirmed the Prospectus for initial public offering and admission to trading on a regulated market of convertible corporate bonds (Decision of “Texim Bank” AD’s Management Board from 06.02.2020 for the issue of 22 000 ordinary, dematerialized, registered, interest-bearing, freely transferable, unsecured, convertible corporate bonds with a nominal value of BGN 1 000, for a total of BGN 22 000 000, with maturity of the bond loan 7 years and a fixed annual interest rate of 2.2%). The public offering process is planned to start in the second half of April 2020, in accordance with the regulatory requirements and conditions set out in the Prospectus and the Decision of the Management Board of 06.02.2020.

(2). On 11 March 2020, the World Health Organization (WHO) announced the COVID-19 coronavirus infection for a pandemic. On 13.03.2020 the Bulgarian government declared a state of emergency for one month and introduced strict measures for the population and business. Notwithstanding the measures taken by supervisors and regulators to limit the negative impact on the markets and economies of countries, the spread of the virus has an adverse effect on economic activity, stock markets, tourism, transport and many other industries.

The management of “Texim Bank” AD took timely measures to ensure the continuity of its operations in the current situation by setting up a temporary crisis management committee, updating the Business Continuity Plan and the Bank’s Contingency Plan, preparing an Action Plan, concerning the most important business areas, incl. the activity of the operational units, front offices and cash desks, etc.

The Bank, as a public company and investment firm, will disclose as soon as possible any relevant information regarding the impact of COVID-19 on the key indicators, providing a true and fair view on its financial position and the results of its business activities and will continue to apply risk management requirements.

At the date of preparation of this report, only a partial materialization of the risks of the epidemic is observed, with an assessment regarding the full impact on the Bank being too early to form.

Quantitative and qualitative assessment of the effect of the virus spread on commercial activity, economic development and the Bank’s main indicators is difficult to make at the moment, given the dynamic development of the pandemic in the country and around the world, but the impact of the pandemic may affect negatively the quality of the Bank’s credit portfolio and lead to price and credit volatility related to the Bank’s investments.