

TEXIM BANK AD

ANNUAL SEPARATE MANAGEMENT REPORT
INDEPENDENT AUDITORS' REPORT
SEPARATE FINANCIAL STATEMENTS

31 December 2020



ANNUAL MANAGEMENT REPORT
„TEXIM BANK“ AD
2020

Sofia
March 2021

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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by an investment intermediary referred to in Art. 5, para. 2 and 3 of the Markets in Financial Instruments Act (repealed) in accordance with Art. 6, para. 2 and 3 of the new Markets in Financial Instruments Act and holds an investment intermediary license as required by the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 Bank” 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 provides external services.

„Texim Bank” AD is a member of “BSE” AD, “Central Depository” AD, Banking Organization for Payments Initiated by Cards (BORICA), 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, 2020, the Bank operates through the Central Office and in 33 offices in 22 settlements. As of 31.12.2020 the list number of the Bank's staff is 271 employees with 302 employees in 2019. The registration address of „Texim Bank” AD is Sofia, 117 Todor Alexandrov Blvd.

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

	2020	2019	2018
Financial indicators (thousand BGN)			
Net interest income	8 830	9 501	7 734
Revenues from fees and commissions, net	3 558	3 709	3 106
Net gains on financial assets at fair value	2 471	2 487	2 897
Total net operating income	16 276	15 550	14 156
Administrative expenses	(11 412)	(12 224)	(12 988)
Amortization costs	(3 773)	(3 499)	(1 164)
Net expenses from impairment and uncollectibility	86	489	281
Profit for the year	154	298	159
Balance sheet indicators (thousand BGN)			
Total assets	462 623	363 236	301 649
Loans and receivables, net	219 216	169 329	144 894
Financial assets at fair value	110 198	61 729	58 506
Deposits and loans from credit institutions	1 630	1 622	24 562
Deposits from customers other than credit institutions	397 096	320 951	238 636
Total equity	38 891	38 184	36 343
Basic ratios (%)			
Overall capital adequacy	24.00%	15.55%	16.60%
Tier 1 capital ratio	14.89%	15.55%	16.60%
Tier 1 basic capital ratio	14.89%	15.55%	16.60%
Non-performing loans (NPL,%)	4.22%	4.13%	3.73%
Leverage ratio	8.20%	10.43%	12.07%
Liquidity coverage ratio (LCR)	291.08%	433.45%	229.19%
Net Stable Financing Ratio (NSFR)	121.96%	119.29%	118.23%
Net loans and receivables / deposits from customers other than credit institutions	55.20%	55.20%	60.72%
Resources (number)			
Branches and offices	33	34	31
Staff	271	302	306

2.1. KEY FINANCIAL INDICATORS

In 2020, „Texim Bank” AD operates in an environment of reduced economic activity, affected by the pandemic of coronavirus COVID 19 and the anti-epidemic measures taken in connection with it. The decline in economic activity was a result of the country's restrictions on the activities of some sectors, as well as weaker external and domestic demand in conditions of uncertainty, deteriorating labor market conditions and reduced propensity to consume and invest. Prolonged retention of adverse conditions may lead to a deterioration in the financial condition of enterprises and households and a difficult opportunity to service debts on a regular basis. This will be reflected in the increase in impairment charges. The profitability is also adversely affected by the significant weakening of the demand for loans from quality customers in the conditions of uncertainty and deteriorating economic conditions.

As of the end of December 2020, the Bank has deferred under the Moratorium 163 loans in the amount of BGN 53,800 thousand, of which 22 are loans to enterprises in the amount of BGN 50,400 thousand. With the extension of the Moratorium until 31.03.2021 and the deferral of loans until the end of 2021, the Bank will continue to offer appropriate solutions to its customers, while continuing to monitor deferred loans and its loan portfolio.

COVID-19 changed banking and accelerated the development of digital channels. The Bank reports growth in internet and mobile banking (40% of banking operations are performed via internet or mobile banking). The trend in the future is for digitalization of services, regardless of the development of the pandemic crisis.

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

As of December 31, 2020, the financial result of „Texim Bank” AD is a net profit of BGN 154 thousand.

As of 31.12.2020 the main indicators for the activity of the Bank are as follows:

- The Bank's balance sheet number increased by 27,36% compared to the previous year.
- The book value of the assets is BGN 462,623 thousand and compared to the same period of the previous year it increases by BGN 99,387 thousand.
- Liabilities and equity - BGN 462,623 thousand, of which total capital - BGN 38,891 thousand, total liabilities - BGN 423,732 thousand, incl. deposits and loans from credit institutions BGN 1,630 thousand, deposits of other customers BGN 397,096 thousand, incl. liabilities under lease contracts - BGN 5,385 thousand, debt securities issued BGN 22,207 thousand. The total liabilities of the Bank as of 31.12.2020 increase by 30,36% compared to the amount of liabilities as of 31.12.2019. The increase for the year is BGN 98,680 thousand.

In 2020 the Bank issues 22,000 ordinary, dematerialized, registered, interest-bearing, freely transferable, unsecured, convertible corporate bonds with a single nominal value of BGN 1,000, with a total amount of BGN 22,000,000, with a maturity of the bond loan 7 years and a fixed annual interest rate of 2,2%. With a decision of the BNB Management Board dated 29.09.2020, „Texim Bank” AD received approval from the BNB to include in its second-tier capital the amount raised from the issue of convertible corporate bonds in the amount of BGN 22,000 thousand.

The total amount of the regulatory equity of „Texim Bank”AD as of 31.12.2020 is BGN 57,980 thousand, as the core Tier 1 capital amounts to BGN 35,980 thousand. The capital adequacy ratios significantly exceed the required minimum ratios, as their values as of 31.12.2020 are as follows:

- Common equity Tier 1 capital Ratio – 14,89%, whereas the regulatory ratio is 4,5%;
- Tier 1 capital ratio – 14,89%, whereas the regulatory ratio is 6%;
- Total capital adequacy ratio - 24%, whereas the regulatory ratio is 8%.

The total amount of the regulatory capital requirements as at 31.12.2020 is 19 329 thousand, and their structure by type of risk is as follows:

- Capital requirements for credit risk - BGN 17 434 thousand;
- Capital requirements for operational risk - BGN 1 895

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 its total risk weighted exposure. As of December 31, 2020, their amounts are BGN 6,040 thousand (2019 - BGN 5,615 thousand) and BGN 7,082 thousand (2019 - BGN 6,535 thousand) and BGN 1,068 thousand (BGN 2019 - 1,007 thousand).

Equity structure and elements as at 31.12.2020:

BGN '000

Registered and paid-in capital	57 980
Accumulated other comprehensive income	6 870
Other reserves	2 581
Intangible assets	(2 005)
Deferred tax assets	(231)
Requirements for prudential assessment	(111)
Common equity Tier 1 capital	35 980

The common equity Tier 1 capital surplus reported by the Bank as at 31.12.2020 amounts to BGN 25 107 thousand and covers fully the existing regulatory requirements for capital buffers.

In 2020 the rating for financial strength of „Texim Bank” AD, assigned by BCRA, was updated. The results of the last two assigned ratings (2019, 2020) are as follows:

FINANCIAL STRENGTH RATING /PRIVATE/	Rating – 2020	Rating – 2019
Long-term rating:	BB-	B+
Outlook:	stable	stable
Short-term rating:	B	B
Long-term national scale rating:	BB- (BG)	BB- (BG)
Outlook:	stable	stable
Short-term national scale rating:	B (BG)	B (BG)

The 2020 rating update shows the following positive trends:

- The long-term rating of the Bank has been upgraded from B + to BB- with a “stable” outlook.
- The long-term rating on the national scale is unchanged with a "stable" outlook.

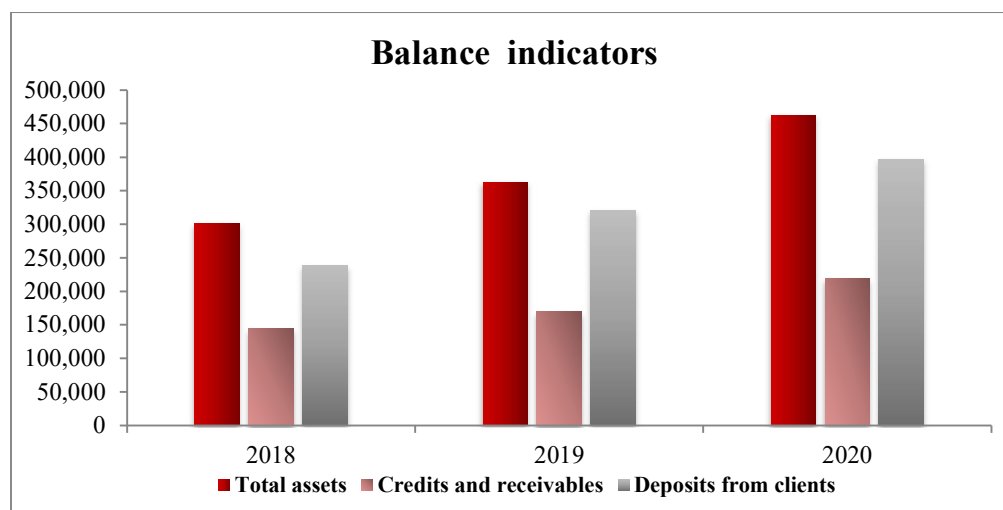
„Texim Bank” AD maintains a relatively low amount and relative share of impaired/overdue loans throughout the five-year period considered. For the last four years, the share of gross non-performing loans as part total gross loans is below 5%, with decreasing average values for the system (from 20% to 9%).

The coverage of the gross loan portfolio with impairments over the last five years varies between 1% - 3% and is significantly lower than the average for the banking system in the country (7,45% for 2020), but this can be explained by the lower level of non-performing loans, respectively the related need to set aside impairments.

In comparison, the values reported by the Bank for the indicators Gross interest rate spread and Net interest margin are significantly higher than the average for the banks of the second group and for the banking system, with a contraction of the excess.

2.2. FINANCIAL REVIEW OF THE OPERATIONS

2.2.1. Asset structure



- Cash on hand and on current accounts with the BNB amounted to BGN 50,767 thousand and formed 10,97% of the balance sheet number, compared to 15,56% for the previous year; The resources provided to banks amount to BGN 62,645 thousand; loans and advances to customers other than credit institutions - BGN 156,571 thousand; receivables for repurchase of securities - BGN 31,208 thousand; financial assets at fair value through other comprehensive income - BGN 80,644 thousand, financial assets at fair value through profit or loss - BGN 29,554; property, plant and equipment amount to BGN 20,812 thousand, intangible assets - BGN 2,005 thousand; investment properties - BGN 11,382 thousand; investments in subsidiaries - BGN 451 thousand; tax and other assets BGN 11,123 thousand

- Funds on accounts with correspondent banks and deposits with credit institutions accounted for 13,54% of the balance sheet, compared to 5,82% in 2019. Investments in financial assets in the form of shares, government securities and corporate bonds increased as their relative share in the assets of the Bank as of 31.12.2020 is 25,00%, compared to 18,51% in 2019. Investing in debt instruments is a means to improve the profitability of the Bank.

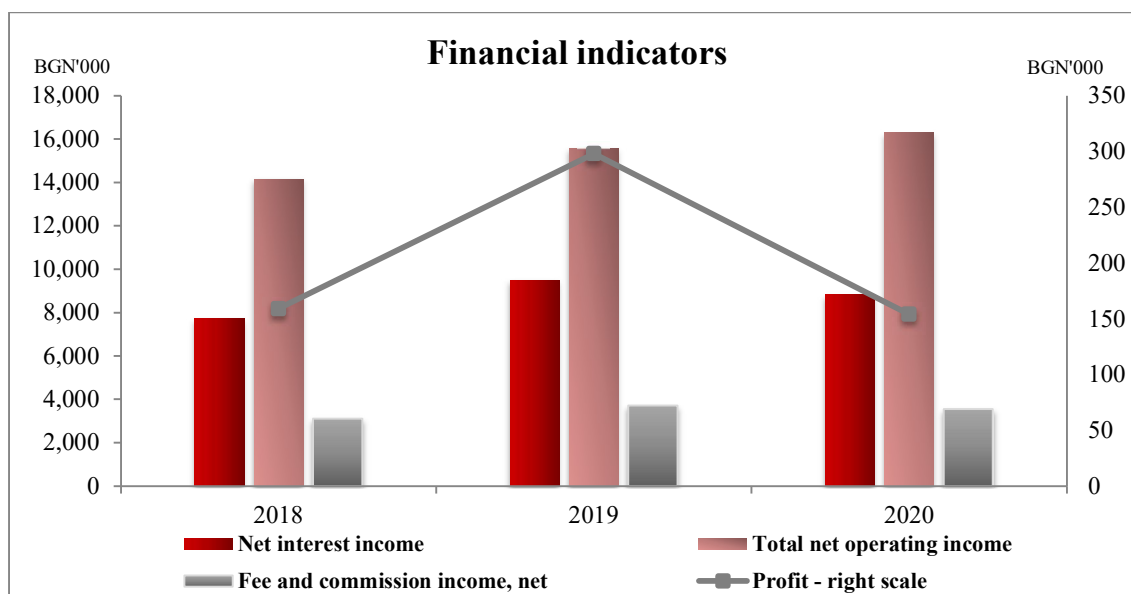
2.2.2. Liabilities structure

„Texim Bank” AD maintains a stable upward trend in the value of borrowed funds, expressed more strongly in the last three years (2018-2020). The structure of the attracted funds was largely optimized during the year in order to increase profitability. Measures have been taken to diversify the attracted resource in terms of sources and timeliness of the resource. The relative share of deposits from customers other than credit institutions, incl. Liabilities under lease contracts increased by 23,72% compared to 2019, reaching BGN 397,096 thousand, incl. BGN 181,657 thousand deposits of individuals and households - residents and non-residents.

With a decision of the BNB Management Board dated 29.09.2020, „Texim Bank” AD received approval from the BNB to include in its tier two capital the amount raised from the issue of convertible corporate bonds in the amount of BGN 22,000 thousand. This strengthens the capital position and will allow the funds to be used for business development in lending and the introduction of additional products and services and to increase the efficiency of existing ones, as well as to protect against potentially unfavorable development of the macroeconomic environment.

The Bank's equity at the end of 2020 amounts to BGN 38 891 thousand.

2.2.3. Revenue and expenses analysis



The income and expenses of the Bank in 2020 are a reflection of the general economic situation and the imposed state of emergency in the country due to the spread of COVID-19. The total net operating income amounts to BGN 16,276 thousand, compared to BGN 15,550 thousand in 2019, which is an increase of 4,67%. The ratio of these revenues to assets is 3,52%, compared to 4,28% as of 31.12.2019.

- Net interest income in 2020 decreased compared to 2019 by 7,06% and reached BGN 8,830 thousand, compared to BGN 9,501 thousand in the previous year. Net interest income is the main source of income for the Bank and represents 54,25% of the net operating income. In the structure of interest income the share of interest income from loans and receivables, incl. under repurchase agreements /repo transactions/ increased to 85,22% compared to 84,70% in 2019. Interest income related to debt instruments decreased by 12,12%.

- During the year, the Bank increased interest expenses in absolute terms by BGN 243 thousand, or by 16,37%, while increasing the attracted resources from customers other than credit institutions by 23,72%. A significant part of the increase in interest rates is due to the debt securities issued in 2020, as a result of which interest expenses in the amount of BGN 214 thousand are reported. The reported interest expenses under operating leases in accordance with IFRS 16 amount to BGN 230 thousand compared to BGN 289 thousand in 2019.

- Net income from fees and commissions during the year decreased by 4,07%. The collected fees and commissions related to the funds attracted by the Bank decreased by 25,05%.

- Net income from operations with financial assets, incl. from foreign exchange trading amount to BGN 2,471 thousand, as their share in the structure of the net operating income as of 31.12.2020 is 15,18% and marks a decrease of 0,81 percentage points compared to the previous year.

- During the reporting period the total and administrative expenses amounted to BGN 11,412 thousand. The decrease of the administrative expenses compared to the previous year was by 6,64%. In the structure of general and administrative expenses the largest share - 62,36% is occupied by employee expenses, followed by cost of materials, rent, consulting and other external services - 35,13%. Employee expense reached BGN 7,116 thousand, compared to BGN 7,021 thousand in 2019, which is an increase of 1,35%. The same is largely due to the increase in the number of the Bank's employees, incl. newly appointed employees in the newly opened offices.

- The expenses for contributions to the Bank Restructuring Fund and to the Bank Deposit Guarantee Fund increased by BGN 210 thousand compared to 2019. The expenses for the two funds amount to BGN 1,130 thousand as of 31.12.2020.

- The net result of impairments for uncollectibility in 2020 is income from reintegrated impairments for credit losses in the amount of BGN 86 thousand, as this value is formed by expenses for impairment of financial assets, reported at fair value through other comprehensive income in the amount of BGN 13 thousand and income from reintegrated impairments of financial assets at amortized cost in the amount of BGN 99 thousand.

2.3. BUSINESS DEVELOPMENT

In 2020, the Bank focused on continuous development of innovative products, introduction of promotional campaigns for all product categories in the conditions of intensified competition, offering preferential service to some of its customers, as well as achieving effective communication with a large part of its customer base. In strategic terms, „Texim Bank” AD will continue to work to improve the quality of services, introduce innovative products, search for new business opportunities and package services in order to upgrade and provide comprehensive customer service.

Operating segments

In connection with the requirements of IFRS 8, paragraph 2 / a // i / and the need to disclose operating segments, the Bank has adopted a distinction of activities in the following business areas: corporate and institutional banking, retail banking and money markets and liquidity. The operational results of the business activities of these areas are reviewed and analyzed by the Management on a regular basis.

Types of 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 of 31.12.2020 the total amount of credit exposures to customers other than banks / excluding repo transactions / before provisioning amounts to BGN 159,088 thousand. The growth of corporate loans amounts to 7,34% - from BGN 104,603 thousand to BGN 112,282 thousand. The growth of the credit retail portfolio amounts to 1,30% - from BGN 46,206 thousand to BGN 46,806 thousand.

The loan portfolio by groups of borrowers is respectively: 70,58% of legal entities and 29,42% of individuals and households.

As of 31.12.2020 the performing and non-performing exposures of the legal entities are respectively: performing exposures - 96,77% and non-performing exposures - 3,23%.

Off-balance sheet commitments under bank guarantees issued in BGN amount to BGN 10,034 thousand as of 31.12.2020.

The unsettled commitments on agreed contracted corporate loans and overdrafts as of 31.12.2020 amount to BGN 17,815 thousand, compared to BGN 11,562 thousand at the end of 2019.

2.3.1. Corporate banking

In 2020, the Bank adjusted its credit policy to the economic circumstances and adopted a strictly conservative approach. During the year, loans to high-risk economic sectors were limited. Credit risk was managed through constant monitoring, restructuring, renegotiation and collateral. Serious work has been done to restructure and improve the collection of problem exposures. The loan portfolio continued to diversify in industries related to the activities of small and medium-sized enterprises, as well as in dynamically developing sectors of the economy. During the reporting period, the Bank's team made serious preparations for reorientation of the activity and development of consumer lending, as in the current year the centralized administration also covered the loans granted to both legal entities and individuals. We actively worked towards the formation of a corporate and consumer portfolio through new credit products.

In the field of corporate banking, the focus of the activity was to increase the amount of credit exposures while maintaining and stabilizing their quality. In this regard, there is a positive trend in the process of granting new loans. The Bank increased its lending activity by expanding the segment of lending to small and medium-sized enterprises, as well as the share of working capital loans, revolving credit lines and overdrafts. Effective and purposeful work on problem loans was carried out, accompanied by the most conservative policy related to impairment.

2.3.2. Retail banking

In 2020, the team of „Texim Bank” AD continued to actively offer personalized loan products and solutions to its customers. The bank is the first on the Bulgarian market to realize and offer its clients immediate issuance of credit and debit cards directly in the bank offices, within 15 minutes. In addition to convenience and speed, the new solution is extremely useful for customers who want to dispose of their funds immediately, and per minute can use the amounts of their approved consumer loan or overdraft. Texim Bank AD continues to develop and upgrade the functions of its alternative banking channels - mobile and internet banking, so that customers can be as easy as possible to work with them and use preferential prices when choosing these platforms.

The offer of competitive products and services has led to 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 products in the field of commodity lending have been introduced. Special offers and credit packages have been developed for companies and their employees, which stimulate sales and provide comprehensive banking services to legal entities and their employees.

Sales campaigns have been conducted, covering various target customer groups, aimed at increasing the used products and services and achieving structured communication, leading to long-term relationships with customers. The focus on cross-selling opportunities remains a leading tool for improving customer satisfaction and experience by offering customers a wide range of products and services, including customized ones.

The bank focused on expanding the customer base and increasing productivity through optimization and efficiency of customer service processes.

The growth of the gross loan retail portfolio amounts to 1,30% - from BGN 46,206 thousand as of 31.12.2019 to BGN 46,806 thousand as of 31.12.2020.

As an overall effect, in 2020 the loan portfolio will continue to grow, but the distribution of sales will be directed to the distribution channels, which are a priority for the Bank and correspond to the general strategy for positioning and targeting.

2.3.3. Card payments

In 2020, „Texim Bank” AD continued to follow the line of an innovative and high-tech bank established over the years in terms of developments in the field of card payments.

Although its own authorization system was test-launched at the end of 2019, and its official opening was in February 2020, at the end of last year over 70% of the most widely issued cards by the bank - MasterCard / debit and credit / were migrated from Borica's system to the Bank's own host. It is expected that by the end of 2021 all cards will be included in the new system. This, in turn, will contribute to increasing the competitiveness of the products offered and strengthening the high-tech image to which the Bank strives.

The number of issued debit and credit cards continues to increase. Despite the globally complex epidemiological situation, as a result of the Bank's efforts at the end of 2020, the total number of issued personal debit cards increased by about 10%. A big role in this is played by the introduced instant issuance, which allows the customer to receive his personalized bank card immediately after its application at a bank office. In 2020, approximately 50% of the requested new cards were instantly issued.

In the case of credit cards in 2020, thanks to the diverse product portfolio created over the years, the total credit limit granted for all types of credit cards issued by the Bank reached the amount of BGN 6,250 thousand.

Development and growth of card services and products

In 2020, „Texim Bank” AD continued the development of its activity in the field of card business in two main areas, namely: issuance of bank cards and development of a terminal network for accepting payments and withdrawing cash.

Regarding the issuance of bank cards, in 2020 the Bank focuses its efforts mainly on adapting its existing card products to the needs of its current and future customers. This decision was dictated firstly by changes in demand due to the worldwide pandemic, but also by the fact that the Bank has already created a sufficiently diverse product portfolio.

In this regard, and no less important was the project to meet the security requirements of 3-D Secure - version 2.0, aimed at in-depth identification of the customer when paying with cards on the internet through the use of biometric data and other authentication methods. Following the introduction of two-factor authentication for secure payments on the internet, in 2020 the Bank launched a project for the introduction of biometric authentication (fingerprint) for online payments for its cardholders, which is expected to be offered to customers at the end of the first quarter of 2021.

Also, in 2020 „Texim Bank” AD completed the work on a project for the implementation of the VAU (Visa Account Updater) service of Visa, which provides an opportunity to automatically update the information when using services for payment of Visa card bills when the card is renewed or reissued.

In terms of Acquiring bank card payments, the Bank conducted clear and targeted communication with its e-Commerce merchants, with the aim of clarifying which regulations require changes, what are the business benefits of switching to 3-D Secure v2.2 and at the same time started a process of adapting their sites and migrating to the new systems.

Despite the difficult economic situation in 2020, the expansion of the terminal network of POS terminals continued its development and over the past 12 months attracted more than 25 new merchants, strengthening its image as a high-tech bank, „Texim Bank” AD offered its merchants a new POS model terminal equipped with a touch screen, which was extremely well received.

In the past year, preparations for the migration of the Bank's ATM terminal network to the new system of the national card operator Borica started. The system, known as New Generation, is one of Borica's largest projects in which the Bank is actively involved.

2.3.4. Private banking, investment intermediation

Finding a balance on the one hand between the constantly growing regulatory requirements of the national and European legislation with a direct impact on the relations and customer service and on the other hand the ever higher requirements of the clients to quality, security and speed in the service remains a major challenge, both in the past 2020 and in the current 2021 in the sector of banking with significant client.

In these complex and dynamic conditions, the team of Private Banking at „Texim Bank” AD continues to develop and implement its strategy for comprehensive banking and financial services to first-class clients - individuals, corporate and institutional clients. The strategy includes the provision of a variety of products and services, both in ordinary banking operations, but also those related to investment and financial intermediation, such as storage products, trust and custody services, purchase and sale of financial instruments and assets and others.

The main tasks in the activity of private banking in 2020 are the growth of the client base and establishment of stable and effective relations with the clients, expansion of the products and services in the field of private and investment banking, including providing

more opportunities to the business clients, their employees, and partners. The main goal is to achieve high quality and security in service, efficiency and speed of operations, comfort and convenience in banking, including through the use of new technological solutions and capabilities.

The fulfilment of the set goals and tasks before private banking will further promote the activity of the Bank and will contribute to the increase of the financial result.

2.3.5. Treasury operations and liquidity

For another year, the conservative and well-balanced investment policy of „Texim Bank” AD achieved good results. In the past 2020 „Texim Bank” AD traditionally participates in the local and foreign markets, both on behalf and for the account of its clients, and on its own behalf and for its own account. At the same time, the Bank maintained optimal liquidity in strict compliance with regulatory requirements.

The realized interest income from corporate and government securities in the Bank's portfolio in 2020 amounts to BGN 1,435 thousand. The dividends received from investments in equity instruments amount to BGN 335 thousand, and the interest received from repo transactions amounts to at BGN 1,822 thousand.

The profit realized from foreign exchange trading amounts to BGN 422 thousand, and the profit from transactions with financial instruments held for trading at the end of 2020 amounts to BGN 1,150 thousand, or a total of BGN 1,572 thousand. The profit from transactions with financial assets reported through other comprehensive income for the year amounts to BGN 663 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.

Through its nostro accounts in 11 convertible currencies with first-class European banks, the Bank calmly serves its activities and offers a wide range of banking products in foreign currency to its customers. At present „Texim Bank” AD maintains correspondent relations with over 100 local and foreign banks. Preferential terms have been agreed with some of them, including in the field 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 2020, the main priority in the activity related to information technologies was the rapid transformation of business processes and providing an opportunity to work in the conditions of a pandemic, at the same time not to allow delays in the main directions for development of the Bank.

In 2020, a new service for secure payments on the internet was launched through a new mobile application "Approver", which allows not only a higher level of security for

ordered transactions through internet banking and mobile banking, but also the offer of a new type of services for remote transfer orders.

A new module for management of tangible and intangible fixed assets was implemented, which was developed entirely on behalf of the Bank and meets the requirements for management and administration of Tangible and Intangible Assets.

The certification and implementation of the security standard in card payments - 3DS version 2, which the Bank implements together with Borica, has been successfully completed.

The project for modernization of the IT infrastructure continued, and during the year a completely renewed virtual infrastructure was implemented. The project continues in 2021.

In 2020, the Bank introduced a new version of the mobile and internet banking system, which added new functionalities for card management and transaction limits.

III. IMPORTANT EVENTS OCCURRING AFTER 31.12.2020

No corrective events or significant non-adjusting events occurred between the date of the financial statements and the date of approval for publication, except for the following:

- On March 16, 2021, an increase in the capital of „Texim Projects“ EOOD by BGN 500 thousand was entered in the Commercial Register.
- Based on a decision of the Management Board of „Texim Bank“ AD, objectified in Minutes № 18/11.03.2021, approved by the Supervisory Board of the Bank, with Minutes № 16/11.03.2021 on 18.03.2021 in the Commercial register and the register of non-profit organizations at the Registry Agency, a new subsidiary of the Bank has been registered. The newly registered company is named „Texim Project Company“ EOOD, UIC 206439173, with a capital of BGN 1,000, which is 100% owned by „Texim Bank“ AD, with subject of activity: provision of all services, including but not only provision, support and management of IT resources, consulting services related to: participation in company analysis projects, development of business strategies, strategic transactions and management, human resources management, corporate financing, etc., marketing activities, commercial representation and mediation, as well as any other activities not prohibited by law.
- By Decision of the Council of Ministers № 72 of January 26, 2021, the term of the extraordinary epidemic situation in Bulgaria was extended until April 30, 2021. In view of the actions taken by various governments, incl. Bulgarian, dynamic measures to curb some businesses and the resulting changes that directly affect the development of economic sectors in Bulgaria, the Bank's management is unable to assess the continued impact of the Covid-19 coronavirus pandemic on future financial condition and results of the Bank's activity, but considers that the impact could lead to volatility of the market and price risk related to the Bank's financial assets and may have a negative effect on the activity of borrowers and respectively the results of the Bank's activity. The expectations of the management are that the negative effects will gradually subside in 2021, as the economic activity is expected to be positively affected by the measures and direct aids for the affected companies and individuals in Bulgaria. To the extent that these measures are supplemented and expanded on a daily basis, the Bank's management is unable to assess the final effect on economic activity, which also depends on the currently unknown duration of the quarantine restrictions imposed. As the Bank's liquid assets exceed many times the regulatory requirements and the Bank's liquidity buffers are currently unaffected, management does not expect to depend on funding affected by the coronavirus epidemic. The Bank continues to apply measures for physical protection of the bank staff, exposed to direct risk of infection in the bank branches, observing the relevant instructions of the authorities - supply of personal protective equipment, limiting the concentration of employees indoors, in the bank branches, a minimum number of clients is allowed, observing a distance of 2 m. from each other,

disinfection of bank premises at least four times a day, etc. The Bank applies a schedule for remote work of employees in the "home office" mode, which ensures the provision and continuity of business processes during the state of emergency. The Bank's management will continue to monitor the potential impact and will take all possible measures to mitigate any potential effects.

IV. MAJOR RISKS

„Texim Bank” AD actively manages the risks inherent in its activity, in order to achieve an optimal ratio between profitability from operations and inherent risk. The risk management complies with the requirements of the Bulgarian legislation and the applicable European directives and regulations, as well as of the current internal regulations of the Bank.

In 2020, the coronavirus pandemic (COVID-19) had an unprecedented impact on the economy, the overall picture of the risks changed rapidly and significantly, with the level of uncertainty remaining high in the short to medium term. Under these conditions, the Bank identifies, assesses and monitors existing and emerging risks and vulnerabilities.

The processes for management and control of the risks arising from the activity of the Bank are carried out centrally by the respective specialized units through the current internal policies, procedures, rules and methodologies. The established risk management framework in „Texim Bank” AD provides adequate identification, measurement, monitoring and control of all significant risks for 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 31.12.2020 is BGN 57 980 thousand and the common equity Tier 1 capital amounts to BGN 35 980 thousand. The capital adequacy ratios exceed the statutorily required minimum ratios, and their values as of 31.12.2020 are as follows:

- Common equity Tier 1 capital Ratio - 14,89%, whereas the regulatory ratio is 4,5%;
- Tier 1 capital ratio – 14,89%, whereas the regulatory ratio is 6%;
- Total capital adequacy ratio – 24,00%, whereas the regulatory ratio is 8%.

The total amount of the regulatory capital requirements as at 31.12.2020 is BGN 19 329 thousand and their structure by type of risk is as follows:

- Capital requirements for credit risk – BGN 17 434 thousand;
- Capital requirements for operational risk – BGN 1 895 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 31.12.2020, their amounts are, respectively, BGN 6 040 thousand (2019 BGN 5 615 thousand), BGN 7 082 thousand (2019 BGN 6 535 thousand) and BGN 1 068 thousand (2019 BGN 1 007 thousand).

The common equity Tier 1 capital surplus reported as of 31.12.2020 amounts to BGN 25 107 thousand and fully complies with the regulatory capital buffer requirements (2019 – 24 824 thousand).

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 31.12.2020 under normal conditions, the capital required under ICAAP is BGN 21 023 thousand, with BGN 56 016 thousand available and capital buffer under ICAAP (excess over the required capital) of BGN 34 993 thousand. The results of the stress tests carried out as of 31.12.2020 with regard to the significant types of risk show that the capital adequacy of the Bank is ensured even in the event of serious economic shocks. The capital surplus under stress is estimated at BGN 18,437 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 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".

The effects of the Covid-19 pandemic did not lead to significant changes in estimates, changes in expected loss estimation (ECL) models other than changes in the risk parameters of the provisioning model, and did not lead to changes in classification or business models in 2020. The Bank's management expects information on the measures taken and guidelines issued by the European Banking Authority (EBA) and the BNB in its capacity as a national regulator, on their future actions and adjusted regulations in the banking sector as a whole.

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 31.12.2020 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.

The Covid-19 pandemic has become a major threat to the global economy and financial markets in 2020. Concerns and fears about the spread of the Covid-19 virus and its impact on the global economy have had a negative impact on investor sentiment which in turn led to a sharp decline in prices for financial instruments in major markets. The stress of the financial markets has been affected by global uncertainty, which has been growing more and more. The business picture has changed on an unprecedented scale in a matter of months, which has posed extremely serious challenges to many industries. The market situation was extremely complex and difficult to predict. The extraordinary circumstances surrounding the pandemic led to a decrease in the fair value of the Bank's securities in March and April 2020. The return to growth was followed by news of the introduction of vaccines, vaccination campaigns and measures taken by individual governments. The market situation at the end of 2020 in terms of market instrument prices is almost at the pre-pandemic level.

4.2.3. Interest rate risk arising from non-trading book activities

The interest rate risk arising from non-trading book activities (IRRBB) 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 IRRBB level is limited by limits and is subject to analysis and control by the Asset and Liability Management Committee (ALCO).

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 liquidity coverage ratio as at 31.12.2020 is 291,08% 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 ALCO.

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.

The spread of Covid-19 led to a change in social life and the way work was organized in many companies. As a result of the pandemic, which has become one of the main sources of operational risk, the Bank has introduced a series of measures aimed at protecting, controlling and limiting or avoiding the occurrence of operational events arising from the spread of the infection. The measures taken have a wide range of scope, the main goal is to ensure business continuity and increase the security of banking services. The Bank applies a pass regime, with certain strict requirements for employees and customers. In order to ensure the continuity of the activity, the protection of the health status of the employees is of paramount importance, for the smooth implementation of the banking services and especially the protection of the activities critical for the Bank.

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

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

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

The COVID-19 pandemic has a significant impact on economic processes. Quantitative and qualitative assessment of the effect of the spread of COVID 19 on macroeconomic risk is difficult to make at the moment given the high uncertainty in the forecasts and the unprecedented nature of the crisis.

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, 2020, the Bank operates through the Central Office and in 33 offices in 22 settlements. As of 31.12.2020 the list number of the Bank's staff is 271 employees with 302 employees in 2019. The registration address of Texim Bank AD is Sofia, 117 Todor Alexandrov Blvd.

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

The financial instruments owned by „Texim Bank“ AD as of 31.12.2020 are: government bonds, corporate bonds, shares and stocks, the total value of which amounts to BGN 115,659 thousand, classified at fair value through profit or loss - BGN 29,554 thousand, at fair value through other comprehensive income - BGN 80,644 thousand and at amortized cost - BGN 5,461 thousand.

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

As of December 31, 2020, „Texim Bank“ AD holds government securities issued by the Government of the Republic of Bulgaria in the total amount of BGN 61,911 thousand.

The corporate debt securities of Bulgarian and foreign issuers as of the end of 2020 amount to BGN 24,677 thousand, and the shares and units of enterprises, as well as the shares in collective investment schemes owned by the Bank amount to BGN 29,071 thousand.

As of December 31, 2020, the subsidiaries do not own any shares of 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 activities under the control of the Supervisory Board. According to the Articles of Association, the Management Board of the Bank consists of three to nine capable individuals, who are elected and appointed by the Supervisory Board. As of 31.12.2020, the Management Board consists of 4 members, who are elected by the Supervisory Board for a term of five years and can be replaced and re-elected without restrictions and at any time by the Supervisory Board.

The Management Board reports to the Supervisory Board on the activity and condition of the Bank at least once every three months. 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. Not to be spouses or relatives by direct or lateral 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 capable individuals elected by the General Meeting for a term of services 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 31.12.2020 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 lateral 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 subsequent 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 confidential information 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 service 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 prepared on the basis of Art. 73b of the Credit Institutions Act, Ordinance № 4 of the BNB of 21 December 2010 on Remuneration Requirements in Banks, which introduces provisions of Directive 2013/36 / EC of the European Parliament and of the Council of 26 June 2013 on access to on credit institutions and on the prudential supervision of credit institutions and investment firms, amending Directive 2002/87 / EC and repealing Directives 2006/48 / EC and 2006/49 / EC and the EBA Guidelines on prudent policies for determination of the remunerations EBA / GL / 2015/22 of 27.06.2016, art. 116c of the Public Offering of Securities Act and section III of Ordinance № 48 of the FSC of 20.03.2013 on the requirements to the remunerations. The remuneration policy is part of the general management policy and introduces basic provisions, principles and requirements, which aim to create a remuneration framework in the Bank, which will allow attracting, retaining and motivating employees to work to achieve long-term interests of the Bank, ensuring competitive and equal levels of remuneration, linking the results of work with individual wages, stimulating the initiative of employees for quality performance of labour functions. The policy defines the main leading functions of the Supervisory Board and the Management Board, thus ensuring that the determination of remuneration corresponds to the maximum extent to the regulatory requirements and recognized good practices in this area. The Supervisory Board is responsible for the development, adoption and monitoring of the implementation of the remuneration policy as a whole. The Supervisory Board approves and controls the remuneration of senior management and the employees who receive the highest remuneration. The General Meeting of Shareholders determines the amount of the remuneration of the Supervisory Board and the members of the Management Board, taking into account the obligations, the degree of workload and the contribution of each member of the Management and Supervisory Boards to the Bank's activities and results. Guiding principles of the Remuneration Policy are also the disclosure of information on remuneration in accordance with the provisions of Art. 14 of Ordinance № 4 of the BNB of 21 December

2010 on the requirements for remuneration in the Banks and Art. 11, para. 7 of Ordinance № 48 of the FSC of 20.03.2013 on the requirements for remuneration, evaluation of employees, periodic review of remuneration and reliable risk management.

- **RULES OF PROCEDURE FOR DISCLOSING CONFLICTS OF INTEREST AND ENSURING CONFIDENTIALITY.** The rules have been developed in implementation of Art. 51-54 of the Credit Institutions Act, Guidelines of the European Banking Authority for Internal Management in connection with Directive 2013/36 / EU and the Labor Code Art. 187, para. 1, item 8 and item 10, para. 2. These rules clearly regulate: the basic principles of governance in the field of conflicts of interest; the procedure for disclosing conflicts of interest and for ensuring confidentiality on the part of the administrators and other employees directly involved in the implementation of the subject of activity of the Bank; the measures taken by the Bank in relation to potential or specific conflicts of interest; responsibilities and sanctions in case of violation of the norms regulating relations with potential or specific conflict of interests; the standards to be applied for the proper identification, management and registration of conflicts of interest, as well as the responsibilities and sanctions for violations found. The rules create an organization of the Bank's activity, which does not allow the administrators and other employees to be placed in a situation where their obligations to one client conflict with their obligations to another client, or their own interests conflict with the 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 fulfil 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 compliance function 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 its execution; 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 2020 General Meeting for joint audit of the 2020 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 confidential information 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 2021

9.1. The following may be outlined as the **strategic operating goals** for 2021:

- Maintaining and expanding the adopted priorities in terms of product and customer base, information and staffing;
- Maintaining the high professionalism in the service, the customer-oriented strategy, expanding the range of basic credit, deposit and combined products and the related financial services of individuals, private commercial enterprises, etc .;
- Active participation in the money and capital market in order to increase the efficiency of transactions;
- Participation in the implementation of harmonized statistical reporting in the implementation of the economic and convergent criteria in the field of balance of payments; unification of risk analysis and management systems in the context of the requirements of Basel III, application of international accounting standards and the requirements of IFRS 9, IFRS 16, MiFID II;
- Optimization and effective control over the revenue and expenditure part of the Bank's budget.

9.2. Important highlights in the 2021 activities will be:

- Administration of the corporate bond issue;
- Attracting monetary resources and their effective investment, combined with an in-depth analysis of potential risks;
- The search for opportunities for diversification of the offered package programs and product lines will continue, with 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 renewal, increasing the competitiveness and efficiency of economic entities, etc.
- Cost optimization and strict budget planning;
- Improving profitability.

The management and employees of „Texim Bank” AD will continue to work to expand their market share in the field of corporate banking and retail banking, maintaining the universal commercial profile and the main competitive advantages in the field of offering financial services packages and other instruments.

During the year, the efforts of the Bank's team will be focused on maintaining very good indicators related to core capital ratios, liquidity and structural performance indicators in accordance with macroprudential requirements. The Bank will continue to maintain very good liquidity ratios combined with permanent monitoring of indicators and optimal management of assets and liabilities.

The Bank has an approved recovery plan developed in accordance with the requirements of the Law on Rehabilitation and Restructuring of Credit Institutions and Investment Intermediaries, as well as in accordance with EBA 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 from „Texim Bank” AD will continue to develop specialized credit and deposit products, incl. package programs tailored to customer requirements, the specifics of the business and the market environment. The Bank develops a wide range of credit products in the field of consumer lending, offering competitive parameters and lending conditions. As an investment intermediary, it will continue to carry out transactions related to the purchase and sale of securities, custody services, repo transactions, transactions as a registration agent, related to the change of personal data of the holders of securities in case of transfers, inheritances or donations, registration of pre-agreed transactions, 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 the State Fund "Agriculture" in order to facilitate the administration of processes and document flow is provided electronic exchange of information on the availability of pledges and their deletion when lending to applicants for support schemes and measures for direct payments. The Bank is ready to assist its clients in developing projects financed by EU structural and cohesion funds.

The management plans to develop and increase the service of the budget sphere. An important priority in the activity of the Corporate and Institutional Banking Directorate is participation in competitions (procedures) with offers for servicing various units of the budget sphere. In 2020, a rating for financial strength of „Texim Bank” AD was prepared by BACR, and the indicators for the long-term rating were increased by one step.

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

The strategy of „Texim Bank” AD regarding the lending activity for 2021 is fully in line with assuming acceptable risk. The goals we set are related to maintaining a well-balanced and structured loan portfolio with a minimum relative share of difficult-to-collect loans and constant optimization of the price-service ratio. In 2021, the Management will work towards effective and prudent management of the loan portfolio (in terms of size, structure and ratios between different types of loans), analyzing and forecasting the dynamics of resources by criteria - maturity, risk, customers, industries, market of the resource, etc.

9.4. The planned amount of loans and receivables from corporate clients as of 31.12.2021 is respectively BGN 131,000 thousand, i.e. a planned growth of 17%. The planned interest income on loans to corporate clients as of 31 December 2021 amounts to BGN 4,900 thousand. Compared to last year, the growth of interest income is 15%. The planned revenues from fees on loans and bank guarantees amount to BGN 371 thousand.

The main limiting parameters for granting new loans in the field of corporate lending are:

- optimizing the terms for repayment of loans;
 - limiting lending to customers with problems in terms of debt collection and payment of debts, with declining net sales revenues and other negative financial indicators and business circumstances;
 - limitation of loans with a large grace period;
 - in-depth analysis of newly authorized loans in terms of return on investment, giving priority to projects with faster returns;
 - in-depth analysis of the solvency of the borrower. Referral to clients with good credit history and alternative opportunities for servicing loans, as well as clients with opportunities for self-participation in credit transactions and maintaining balances on their current accounts in an amount greater than the monthly repayment instalment on the used loan;
 - maximum protection against credit risk in the period up to the term of the loan;
- Credit risk management will be carried out through constant monitoring, focusing on: deepening the analysis of the economic situation and the state of market conditions for the sectors in which borrowers are positioned, as well as their financial and economic condition, while maintaining existing forms, terms and content of the monitoring process; undertaking of anticipatory actions by the Bank and respectively by the clients, as a result of established specific risk factors related to the borrowers, the business activity and the market environment, their financial and economic condition, the management of the provided collateral, etc. Increasing the Bank's security when concluding credit transactions will be realized by minimizing the negative consequences for the Bank when concluding annexes related to changes in loan terms and interest rates, different from the initially agreed ones;
- When providing loans to legal entities, sole proprietorships and PAs, the aim is to expand the activity, including through projects under the EU structural funds, only in a real proven market and in sectors without significant impact of the economic crisis.

9.5. “Retail banking” segment

The planned amount of loans to individuals as of 31.12.2021 is BGN 55,000 thousand, i.e. a planned growth of 17%. The planned interest income on loans to individuals as of 31.12.2021 amounts to BGN 2,800 thousand.

In 2021, the main goal in the Retail Banking segment will be to significantly increase the customer base by developing and upgrading the Bank's digital portfolio of products and services for individuals.

The main accents in the work on digitalization and optimization of the processes and products in the segment "Retail Banking" will be expressed in:

- Attracting new customers in the mobile banking platform by identifying a customer from a distance (digital identity), without the need to visit an office of the Bank;
- Entirely online processes for the sale of credit products and services;
- Creation of savings and credit products, exclusively and entirely aimed at the users of the mobile banking platform with remote application and signing of a contract;
- Opportunity to sell insurance products to partners through the mobile / internet banking application;
- Further development of the Bank's website as a full-fledged platform for applying for banking products and services, including remote signing of a contract for a banking product or service;
- Implementation of fully automated solutions for providing loans to individuals;
- Implementation of payment package services 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;
- Improving and implementing innovative solutions for remote banking. In 2021, the improvement of the internet and mobile banking service will continue, as well as the activity of expanding the range of products and services offered, in order to optimize costs and impose 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 2021, the main emphasis in the development of the card business will be focused on expanding the digital channels for sales of card products and attracting new customers. Special attention will be paid to the methods for remote identification of customers in order to improve the quality of service by reducing the need to visit a bank office.

- In parallel with the offer of physical POS terminals, where defending its image of a high-tech bank, „Texim Bank” AD offers its customers stylish and modern POS terminals with touch screens, we will work to increase the number of virtual merchants who the bank plans to attract by offering the latest and most modern system for secure payments on the internet - 3-D Secure version 2.1.

- In 2021 it is expected to be officially finalized one of the largest projects of Borica AD, called New Generation, in which the Bank actively participates. In practice, this is a process of migration of the national card operator to a new generation authorization system - OpenWay. The project covers all elements of the card business and its implementation will enable banks, members of Borica AD, such as „Texim Bank” AD, to offer a high level of flexibility in the provision of new services, fraud prevention in real time and guaranteed continuity of services.

- Within the first quarter of 2021, the launch of a project for software and hardware modernization of the Bank's ATM terminal devices and their migration to the new system of Borica AD is envisaged. The inclusion of the terminals in the new system will subsequently make it possible to offer new services to customers through ATMs.

- Having a sufficiently wide range of credit and debit products, „Texim Bank” AD plans in 2021 to focus its efforts on increasing the customer portfolio, relying on the planned expansion of digital sales channels and the application of a proactive approach to potential customers. of the bank.

- The goal for debit cards is to reach the number of 14,500 by the end of 2021, and for credit cards - to overcome the limit of 2,500.

- In 2021 it is planned to introduce for individuals and legal entities customers of the Bank the opportunity to use various package services, including card products and services. Through this approach, the Bank will respond to new trends in market demand, while forming additional customer satisfaction and loyalty. This is expected to contribute to an increase in the customer base, the number of cards issued, transactions and the volume of payments.

- One of the Bank's credit card priorities will be to encourage customers to use their bank cards for more and more transactions, thus aiming for the total balance sheet debt on these cards to exceed BGN 2,000 thousand, and the granted credit limit to reach BGN 7,900 thousand.

- With regard to the Bank's own authorization host, further development of the system is envisaged, as well as the introduction of additional services for the cards to be performed by the Bank and which over time will lead to the optimization of the costs for them.

In 2021 „Texim Bank” AD will continue to maintain its image as a high-tech bank and it is planned that all newly opened offices will be equipped with printers for the service "Immediate issuance" of debit and credit cards in the Bank's office. In parallel, work will be done to increase the POS and ATM terminal network. The main goal will be to attract new traders who realize high turnovers through the POS terminals installed in their sites. In 2021 the development of the network of ATM terminals will continue.

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

At the end of last year, „Texim Bank” AD adopted a new concept of work, which includes the application of criteria for clients of Private Banking, as well as the establishment of a monthly fee for Private Banking. Thus, the desired effect of segmentation of the own customer base was achieved in the balance of higher efficiency and revenues for the Bank.

At the same time, a new Texim Comfort service was announced, specially prepared for clients of Private Banking at the Bank. The service includes initiating payment transactions remotely and digital confirmation by the customer.

Over the past year, the activity in the Private Banking segment required strict compliance with the requirements for compliance with European and national legislation, especially in the field of investment intermediation, measures to prevent money laundering and in-depth customer identification.

The strategy for development of "Private Banking" for 2021 includes additional efforts to digitize and find convenient and secure solutions for some basic products and services.

Other important tasks in this direction are:

- Expansion of the customer base with new customers - 10%;
- Growth of the attracted resource from clients of "Private Banking" by 10%;
- Stabilization and expansion of the relations with the clients for realization of more products and services of the Bank, including along the line "Individual - Own business, Companies - Employees and Partners of the company";
- Promoting the advantages and imposing the service "Texim Comfort" as a modern, convenient and secure way to work with customer accounts and funds;
- Continuous development and improvement of the knowledge and competencies of the employees and the team of "Private Banking".

The banking group on a consolidated basis includes „Texim Bank” AD / the Parent Bank / and its subsidiaries: „Texim Asset Management“ EAD and „Texim Projects“ EOOD. As of 31 December 2020, the Bank owns 100% of the capital of „Texim Asset Management“ EAD, which in turn manages the activities of four mutual funds - SF „Texim Bulgaria“; SF „Texim Conservative Fund“; SF „Texim Balkans“ and SF „Texim Commodities Strategies“.

As of December 31, 2020, the parent bank owns 100% of the company shares of „Texim Projects“ EOOD. The subsidiary „Texim Projects“ EOOD is a sole proprietorship with limited liability. The Bank envisages an increase in the capital of the subsidiary in order to provide opportunities for development, which is entered in the Commercial Register in 2021.

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 largely depend on the performance of the Bulgarian capital market, as well as the macroeconomic data concerning our country: GDP growth, unemployment rate, household income and others. In the short and medium term, „Texim Asset Management“ EAD will strive to take advantage of the potential of the capital markets, as the funds managed by the Company will invest in undervalued companies with prospects for good financial results. This would lead to an increase in the assets managed by the funds, and hence an increase in revenues for the Management Company. The company will continue with its advertising policy aimed at attracting fresh financial resources.

No significant increase in the number of staff is foreseen, which will keep the level of expenditures on salaries, social and pension insurance relatively constant. The increase in the share of revenues and the preservation of the relatively constant share of 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 2020 „Texim Bank” AD maintained the growth trend in the assets under custody.

In the context of growing volumes, the accumulated experience and extensive expertise of employees have played an important role in serving institutional clients with regard to the various features of foreign markets, double taxation agreements and securities trading regimes abroad.

In 2021, „Texim Bank” AD will continue to invest in the information security for the activity, complying with the regulatory requirements, as well as in its customer-oriented and

qualified staff, guaranteeing the quality of the offered services. The available information provision and qualified staff are a prerequisite for maintaining the high level of service to institutional clients, as well as for increasing their number in 2021.

In the assets under custody, „Texim Bank“ AD recorded a significant increase in the past 2020, which inevitably led to an increase in transfers of financial instruments and an increase in the volume of corporate events of a complex nature requiring extensive expertise on various features on foreign markets, double taxation agreements and trading arrangements for financial instruments.

The strategy for the development of the activity of providing Custody Services in 2021 sets the goal of maintaining a high level of service to institutional clients, which will maintain the trend of growth of assets under guardianship in the coming year.

The accumulated experience and the high quality of execution for another year proved „Texim Bank“ AD, as a reliable partner in the provided service, a trustee of the bondholders. In 2021, the Bank will continue to realize its potential, which will lead to maintaining the trend of increasing the number of serviced bond issuers.

The trend for the selection of the Bank as a preferred partner in its capacity as a trustee of the bondholders and a bank providing depository and custodial services will continue in 2021.

9.9. Improving and implementing innovative remote banking solution

In 2021, the improvement of the internet banking service will continue, as well as the activity of expanding the scope of the offered products and services, in order to optimize the costs and impose a high-tech image of the Bank.

We plan to expand the services offered through the Customer Service Call Center, which will improve the work with customers.

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

The strategy for the development of IT in 2021 mainly includes work in the following areas:

- Development of a new type of proposals for banking services with preparation of business package proposals for individuals and legal entities;
- Development of services and products for remote banking with expansion of their functionality;
- Continuation of the project for modernization of the IT infrastructure;
- Continuation of the project related to digitalization of internal processes related to decision control, electronic archives and document management;
- Improvements in the module for Investment Intermediary and expansion of its functionality.

9.10. Liquidity and markets

With regard to liquidity and investment management, „Texim Bank“ AD will continue in 2021 to follow the traditional conservative model of behavior, which has become necessary and proven in recent years. The current market situation, geopolitical and economic situation will be analyzed, in particular the decisions and policies of the BNB, the ECB and the Fed will be monitored in the context of a global pandemic of COVID-19, which has a significant impact on economic and political processes globally and locally.

In order to meet the requirements for servicing state and municipal budget accounts, the Bank will continue to maintain optimal levels of the government securities portfolio, and after careful analysis will invest in medium and long-term government securities with higher yields, as the predominant part of the investments will be directed to domestic and foreign

Bulgarian government securities. Depending on the situation, investments in government bonds of EU countries are also envisaged, as a careful analysis of both the situation in the specific country and the international one is made and high-risk assets are avoided. In order to achieve higher yields and diversification of the portfolio, the Bank will also analyze the possibility for investments in corporate bonds, and an in-depth analysis of the issuer will be applied.

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

The measures that „Texim Bank” AD will take to achieve the above goals and effects by the end of 2021 are the following:

- The Bank will continue to maintain a liquidity ratio (LCR ratio) and a net stable financing ratio (NSF ratio), calculated in accordance with Regulation 575/2013 and in accordance with the “Recovery Plan” adopted by the Bank and its annexes, where it is mentioned and an additional buffer on the minimum regulatory requirements. 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 methods for the respective situation.

- By the end of 2021, „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 in government securities in an amount that allows the achievement of good liquidity, servicing accounts of municipal and state budgets, for which it is obliged to block government securities. The bank will generally strive to maintain the maturity of the government securities portfolio between 5 and 20 years.

- Within the period until the end of 2021, „Texim Bank” AD will currently analyze the investments already made in the context of a global pandemic of COVID-19, which undoubtedly has a significant impact on economic processes, and hence on the financial markets. In this context, all proposals for new investments, as well as the current ones, will be subject to constant monitoring and active management by the Money Markets and Liquidity Directorate, which will currently inform the members of the Management Board and ALCO in order to make an informed management decision by the Bank's Management on key issues related to the management of assets and liabilities.

- In 2021, the Bank will continue to develop its liquidity analysis and monitoring system. Through it, the structural units dealing with liquidity management in the Bank will have the opportunity to make adequate, informed and timely decisions for its management. The Bank will continue to update the developed risk assessment and diversification system.

- In 2021 „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 field of raising funds in 2021, the Bank will continue to work towards:

- Development and offering of quality products and services at competitive levels in the main segments of the liabilities. „Texim Bank” AD will continue to apply an adequate policy regarding interest rates on deposits, which will be fully consistent with the market situation and the competitive environment;

- Improving the quality of customer service and the quality of services offered, individual and package effective solutions and products for its customers;
- Development of the channels for distribution of bank deposit products;
- Good image and strengthening the trust of the clients of „Texim Bank” AD, as well as attracting new depositors;
- Coordinated management of assets and liabilities by optimizing the spread between income from profitable assets and the price of liabilities.

The Bank's strategy in terms of funds attracted from customers is to maintain the growth rate of previous years, as the conservative forecast for 2021 is an increase of about 6% compared to 2020, while maintaining the price of liabilities at relatively low levels in recent years.

In absolute value, this means an increase of nearly BGN 23,000 thousand, or an increase in the funds attracted from customers from BGN 392,000 to BGN 414,000 thousand.

9.11. Strategy in the field of interbank and international operations

In the field of trade finance and international payments, it is planned to expand the product range, incl. work with letters of credit, documentary operations, etc. In international payments, we anticipate continued growth, with the aim of increasing the volume of overseas transfers and payments, as a continuation of the policy pursued in 2020 and the growth of these banking services over the past year.

The work will continue in the direction of establishing the Bank as a reliable partner for the clients in the field of foreign currency payments through efficient, high-quality and fast servicing of the client's transfer orders.

We envisage undertaking additional activities in connection with optimization and automation of the processes in the information system of the Bank by using various distribution channels, providing additional opportunities for execution of client transfer orders in order to fully meet their current needs and requirements.

Regarding the technique and technology of payments, we are working towards the successful finalization of the process for activating the SWIFT GPI in the payment system through UniCredit Milano and optimizing the new version of SWIFT - Fast Work.

Work will continue in connection with the optimization of costs related to payments through active management of directing customer transactions through the optimal channels in accordance with the conditions in them, without affecting the quality of the activity.

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 between the integrated units in Texim Bank AD (Liquidity, Accounting, Security, Banking Operations, Private banking, etc.).

The steady growth of incoming foreign currency transfers achieved in 2020 will be strengthened by offering competitive tariff conditions in favor of the Bank's customers.

The Bank's team will continue to improve the activities related to the timely, high-quality and efficient execution of all back-office operations for the smooth running and realization of transactions on the foreign exchange and lev markets, interbank deposits in

BGN and foreign currency, government securities transactions and corporate securities books.

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 31.12.2020	As at 31.12.2019
Private companies	104,168	92,879
Natural persons and households	46,806	46,206
Financial undertakings	8,114	11,724
Impairment for non-collectability	(2,517)	(2,629)
TOTAL	156,571	148,180

By industries

	As at 31.12.2020	As at 31.12.2019
Individuals	46,806	46,206
Manufacturing	9,946	7,352
Services and others	35,199	23,869
Trade	34,071	29,151
Construction	2,108	3,001
Transport	22,451	17,293
Agriculture	1,498	1,634
Finance	7,009	22,303
Impairment for non-collectability	(2,517)	(2,629)
TOTAL	156,571	148,180

10.2. . CARD PAYMENTS

The table below presents summary information on deposits from customers other than credit institutions as of 31.12.2020 excluding liabilities under operating lease agreements in the amount of BGN 5,385 thousand.

	As of December 31 2020			As of December 31 2019		
	BGN	Foreign currency	Total	BGN	Foreign currency	Total
RESIDENTS	258 038	126 611	384 649	212,092	99,659	311,751
Budget	22 614	-	22 614	13,835	-	13,835
Finance	13 562	6 382	19 944	8,962	6,397	15,359
Households and individuals	97 968	78 739	176 707	96,289	57,633	153,922
Services	40 866	14 555	55 421	34,499	10,973	45,472
Industry	3 338	2 703	6 041	6,033	2,081	8,114
Trade	35 537	15 739	51 276	31,110	15,157	46,267
Transport	1 966	6 040	8 006	10,973	5,234	16,207
Construction	39 062	1 988	41 050	6,908	1,524	8,432
Agriculture	3 125	465	3 590	3,483	660	4,143
NON-RESIDENTS	1 095	5 967	7 062	500	5,395	5,895
	259 133	132 578	391 711	212,592	105,054	317,646

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 2020, the Bank generated net income from certain types of activities, as follows:

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

The net interest income for 2020 amounts to BGN 8,830 thousand and is formed by interest income in the amount of BGN 10,557 thousand and interest expenses in the amount of BGN 1,727 thousand interest is dominated by interest on loans and receivables, and interest expenses on interest on deposits of customers other than credit institutions.

- **Net income from fees and commissions**

The realized net income from fees and commissions in 2020 amounts to BGN 3,558 thousand, as the revenues amount to BGN 4,291 thousand and the expenses amount to BGN 733 thousand. The revenues for fees and commissions are formed from bank transfers, cash operations, loan servicing, electronic card operations, securities transactions, revenues from management of mutual funds, investment consultations and others.

- **Net revenues from financial assets operations**

The realized net revenues from operations with securities and foreign exchange trading in 2020 amount to BGN 2,471 thousand. These revenues are formed from transactions with shares of financial institutions, non-financial institutions and other clients and transactions with bonds issued by The Bulgarian government and companies. This income group also includes the result of foreign exchange transactions. For 2020, the net income from foreign exchange trading is BGN 422 thousand.

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

In 2020, revenues from operations with financial assets reported at fair value in other comprehensive income in the amount of BGN 663 thousand were reported. These revenues are mainly formed from the sale of government securities issued by the Government of the Republic of Bulgaria.

- **Net revenue from exchange rate changes**

In 2020, a negative effect of changes in exchange rates in the amount of BGN 33 thousand was realized.

- **Other operating expenses, net**

In 2020 the Bank realized other operating income in the amount of BGN 408 thousand. The main part of this income consists of rental income, remuneration under contracts for insurance agent, bond trustee, sale of commemorative coins and other services. In 2020, the Bank reported other operating expenses in the amount of BGN 2,044 thousand.

- **Change in the fair value of investment property**

For 2020 the Bank has reported a positive net revaluation of investment property in the amount of BGN 537 thousand.

- **Impairment for uncollectability of financial assets**

The net result of impairments for uncollectability in 2020 is income from reintegrated impairments for credit losses in the amount of BGN 86 thousand, as this value is formed by impairments of financial assets, reported at fair value through other comprehensive income in the amount of BGN 13 thousand and income from reintegrated impairments of financial assets at amortized cost in the amount of BGN 99 thousand.

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

The administrative expenses for the Bank's activity in 2020 amount to BGN 11,412 thousand, and the depreciation expenses amount to BGN 3,773 thousand.

- **Expenses on provisions**

Revenues for off-balance sheet commitments have been reintegrated in the amount of BGN 112 thousand.

XII. INFORMATION ON SIGNIFICANT TRANSACTIONS

In 2020, 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 of December 31, 2020 and 2019, the Bank has receivables and liabilities from related parties as follows:

Related parties and balances	Balance as at 31.12.2020	Balance as at 31.12.2019
Subsidiaries		
Deposits received	189	280
Other receivables	4	-
Key management personnel		
Loans granted	256	243
Deposits received	926	791

The income and expenses realized by the Bank in 2020 and 2019 from transactions with related parties are as follows:

Related parties and types of transactions	For the year ended 31.12.2020	For the year ended 31.12.2019
Key management personnel		
Revenues from interest	11	11
Expenses on interest	1	2
Revenues from fees	2	2
Subsidiaries		
Revenue from services	47	46
Revenues from fees	1	1

In 2020, the Bank carried out transactions with related parties, granting loans, raising funds and others. All related party transactions are entered into under normal commercial conditions in the course of the Bank's operations and do not differ from market conditions. The resolution of the credit transactions was performed after analysis and assessment of the credit risk, in compliance with the requirements for liquidity and adequacy of the collateral and the internal regulations of the Bank..

Key staff of the Bank are the members of the Management Board, incl. the executive directors, who directly participate in the corporate operational management and the members of the Supervisory Board, who exercise control over the activity and making important decisions for the development of the Bank.

The remuneration of the members of the Management Board, paid in 2020, amounts to a total of BGN 348 thousand (2019 - BGN 436 thousand).

The remuneration of the members of the Supervisory Board, paid in 2020, amounts to a total of BGN 270 thousand (2019 - BGN 256 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

Off-balance sheet commitments under bank guarantees issued in BGN amount to BGN 10,034 thousand. The total amount of undrawn commitments on agreed loans and overdrafts (including corporate loans and retail loans) as of 31.12.2020 amounts to BGN 17 815 thousand compared to BGN 11 562 thousand at the end of 2019.

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 owned by „Texim Bank” AD as of 31.12.2020 are: government bonds, corporate bonds, shares and units, the total value of which amounts to BGN 115,659 thousand, classified in the following groups: at fair value in profit or loss, at fair value through other comprehensive income and debt instruments at amortized cost.

As of December 31, 2020 „Texim Bank” AD owns government securities issued by the Government of the Republic of Bulgaria in the total amount of BGN 61,911 thousand.

As of December 31, 2020, „Texim Bank” AD does not hold any securities issued by foreign governments.

The corporate debt securities of Bulgarian and foreign issuers as of the end of 2020 amount to BGN 24,677 thousand, and the shares and units of enterprises, as well as the units in collective investment schemes held by the Bank amount to BGN 29,071 thousand.

As of December 31, 2020, the subsidiaries do not own any 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 other customers, other than credit institutions and liabilities under lease contracts are BGN 397,096 thousand, incl. BGN 391,711 thousand deposits from other clients, other than resident and non-resident credit institutions and BGN 5,385 thousand liabilities under lease agreements.

There are no obligations under securities repurchase 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 the third quarter of 2020 „Texim Bank” AD issued 22,000 ordinary, dematerialized, registered, interest-bearing, freely transferable, unsecured, convertible corporate bonds with a single nominal value of BGN 1,000, with a total amount of BGN 22,000,000, with a maturity of the bond loan of 7 years and a fixed annual interest rate of 2,2%. On 24.07.2020 the entire amount of the bond issue was deposited in the accumulation account of Texim Bank AD. After issuing preliminary approval under Art. 33d of Ordinance № 2 of 2006 on the licenses, approvals and permits issued by the Bulgarian National Bank, in connection with Art. 39, para. 6 of the Credit Institutions Act, according to Decision № 338 of 29.09.2020 of the BNB Management Board, the funds raised through the bonds in the amount of BGN 22,000 thousand are included in the Tier 2 capital of „Texim Bank” AD, in accordance with the requirements of Art. 63 of Regulation № 575/2013 of the European Parliament and of the Council of 26 June 2013.

The funds raised in the amount of BGN 22,000 thousand were used by „Texim Bank” AD in accordance with the objectives set out in the Prospectus for initial public offering and admission to trading on a regulated market of convertible corporate bonds of Texim Bank AD, confirmed with Decision № 237-E of 26.03.2020 of the Financial Supervision Commission, as well as in accordance with the Bank's strategy for raising funds for business development in lending and introduction of additional products and services and for increasing the efficiency of the existing ones, as well as for protection against potentially adverse developments in the macroeconomic environment and provision of additional capital buffers.

Proceeds from the bonds were not used to acquire assets other than the Bank's ordinary activities.

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 its Annual Activity Report for 2020, the Bank has not published specific forecasts for its development and accordingly does not report a ratio between previously made forecasts and achieved results.

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 current legislation and internal regulations. The Bank serves all its obligations on time and maintains a high degree of liquidity.

Liquidity risk arises from the mismatch between the maturity of assets and liabilities and the lack of sufficient funds with which the Bank to meet payments on current financial liabilities, as well as to provide funds to finance the increase in financial assets and possible off-balance sheet claims. Liquidity risk is subject to analysis and control by the Assets and Liabilities Management Committee. The main sources of funds for the Bank are deposits and other borrowed resources. For 2020, there are no indicators of the Bank for the occurrence of increased risk, regulated in the "Rules for liquidity risk management". Periodically, according to the Internal Rules, "Liquidity Reports" are prepared / in a normal banking environment and in the scenario "Liquidity crisis" /.

The preventive function in liquidity risk management is expressed in daily monitoring and liquidity management, maintaining sufficient availability of high quality liquid assets to

ensure mismatches between inflows and outflows, analysis of mismatches between inflows and outflows at maturity intervals, as in normal banking environment and in times of crisis.

The Bank follows the obligations and restrictions arising from the Credit Institutions Act, European legislation and Ordinance 11 of the BNB on the management and supervision of banks' liquidity. A quantitative measure of liquidity risk is the liquidity coverage ratio. The bank traditionally maintains a large volume of highly liquid assets - cash in hand and at the BNB, which guarantees it a smooth meeting of liquidity needs. As an additional tool for ensuring high liquidity, the Bank uses the resources and advances provided to financial institutions. Basically, these are 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 payment needs for maturing 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 activities in 2021 with its own funds and attracted resources. The Bank has sufficient free equity within the meaning of EU Regulation № 575 in order to realize its intention to expand.

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

In 2020, there were no changes in the basic principles of the Bank's management. The Bank's governance principles are in line with European frameworks and internationally recognized standards for good 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

On 09.03.2020 a change in the composition of the Management Board of the Bank was entered in the Commercial Register at the Registry Agency, namely dismissal of Temelko Valentinov Stoychev as a member of the Management Board and termination of his powers as Executive Director of the Bank.

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 of the members of the Management Board and the Supervisory Board of Texim Bank AD for the financial year 2020 is respectively:

Supervisory Board: BGN 270,000.00

Management Board: BGN 348,231.37

Total: BGN 618,231.37

Remunerations paid to the members of the Supervisory Board and the Management Board in 2020:

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	Peter Hristov	SB Member	54 000.00
5	Ivelina Shaban	SB Member	54 000.00

MANAGEMENT BOARD			
1	Igljka Logofetova	MB Chairperson	40 347.22
2	Ivaylo Donchev	MB Deputy Chairperson and Executive Director	164 847.22
3	Mariya Vidolova	MB Member and Executive Director	80 694.44
4	Temelko Stoychev	MB Member and Executive Director	25 437.86
5	Dimitar Zhilev	MB Member	36 904.63

No non-monetary remuneration was received during the year. There are no contingent or deferred remunerations incurred during the year. There is no amount due by the Bank for the payment of pensions, retirement benefits or other similar benefits.

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

The annual individual and consolidated financial statements of the Bank for 2020 have been audited by „Grant Thornton“ OOD and „RSM“ BG OOD (selected by decision of the GMS of 24.09.2020). The company „Grant Thornton“ Ltd. has its registered office: Sofia, 26 Cherni Vrah Blvd. The company is a member of the Institute of Certified Public Accountants in Bulgaria (ICPA), registered as an auditing company under registration number 32. The registered auditor responsible for the audit for 2020 is Silvia Borislavova Dinova with personal registration № 0737 in ICPA.

„RSM BG“ OOD has an address of management: Sofia, 9 Fritjof Nansen Blvd., 7th floor. The company is a member of the Institute of Certified Public Accountants in Bulgaria (ICPA). The company is registered in ICPA as an audit company under registration № 173. The registered auditor responsible for the certification of the audited by RSM BG OOD financial statements for 2020 is Mariana Petrova Mihaylova with personal registration № 203 in ICPA.

The remuneration for mandatory independent financial audit of the individual and consolidated financial statements of „Texim Bank“ AD for the period ending December 31, 2020 amounts to BGN 155 thousand without VAT, which includes the remuneration of the two audit companies.

Other services not related to the mandatory financial audit provided by the two audit firms include a commitment to perform agreed procedures in connection with the application of Ordinance № 10 of the Bulgarian National Bank on the organization, management and internal control of banks for the period January 1 - 31 December 2020, the remuneration for which is a total of BGN 10,000 for the two audit companies. In connection with the report prepared under the Bank's Prospectus for the issued bond loan, the audit companies were paid respectively: BGN 1,000 to „Grant Thornton“ OOD and BGN 500 to „RSM BG“ OOD.

In 2020 and until the date of this report, no tax consultations were performed by the two audit companies - 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, owned and transferred by the members of the Management and Supervisory Boards of „Texim Bank“ AD are as follows:

	Full name	Title	Number of shares of „Texim Bank“ AD held as at 1 January 2020	Number of shares of „Texim Bank“ AD acquired in 2020	Number of shares of „Texim Bank“ AD transferred in 2020	Number of shares of „Texim Bank“ AD held as at 31 December 2020
1	Maria Petrova Vidolova	MB Member	569	0	0	569

The other members of the Management and Supervisory Boards of Texim Bank AD did not own, acquire or transfer shares of the company in 2020, and do not have special rights to acquire shares and bonds of „Texim Bank“ AD (information under Article 187 "e" of the Commercial Law).

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.

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
PETAR HRISTOV	- “Mega Trans” AD, UIC: 121281886; - “Albatros 1” OOD, UIC: 102068620; - “Profayer” OOD, UIC: 124615729; - “Chaika Property Management” OOD, UIC: 148100367.	- 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.
VESELIN MOROV	No holdings	- Member of the Supervisory Board of „Texim Bank“ AD, UIC 040534040.
IVELINA SHABAN	No holdings	- 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.

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
IGLIKA LOGOFETOVA	- 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.	- 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	Sole Proprietor holding 100% and Manager of VIT MD EOOD, UIC 203613569	- Deputy Chairman of the Management Board and Executive Director of Texim Bank AD, UIC 040534040; - Manager of VIT MD EOOD, UIC 203613569.
MARIYA VIDOLOVA	No holdings	- Executive Director and Member of the Management Board of „Texim Bank“ AD, UIC 040534040. - Manager of “Teksim Proekti” EOOD, UIC 204607932;
DIMITAR ZHILEV	No holdings	- 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 Art. 240 b of the Commercial Law, the members of the Management and Supervisory Boards of „Texim Bank“ AD and the persons related to them have not concluded in 2020 contracts that go beyond the usual activity of the Bank or significantly deviate from 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 2020 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 2020, 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	Percentage of voting rights as per 31.12.2020	Percentage of voting rights as per 31.12.2019
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 31.12.2020 the companies „Datamax“AD, „Datamax System Holding“AD and „Etrade“ Ltd in their capacity as related parties possess together 14.81% of the shares of the votes in the general meeting 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.

26 March 2021, Sofia

IVAYLO DONCHEV
/EXECUTIVE DIRECTOR/



MARIYA 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, PARA. (8), ITEM (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, PARA. (8), ITEM (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.

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

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.

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

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 2020, 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, PARA (8), ITEM (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 Regular General Meeting of Shareholders of „Texim Bank“ AD, held on 24.09.2020 appointed the auditing companies “Grant Thornton” OOD, and “RSM BG” OOD, which were also approved by Bulgarian National Bank, to jointly perform the statutory audit of the annual separate and consolidated financial statements of „Texim Bank“ AD for 2020.

„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

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

The persons who as at 31.12.2020 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	Percentage of voting rights as per 31.12.2020	Percentage of voting rights as per 31.12.2019
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 31.12.2020 the companies „Datamax“ AD, „Datamax System Holding“ AD and „Etrade“ Ltd in their capacity as related parties possess together 14.81% of the shares of the votes in the general meeting 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, PARA (8), ITEM (3) OF POSA

The organizational structure of the Bank is built in accordance with the nature of the economic activity, its shareholder structure, the legal form of organization, as well as its risk profile.

The bank is a joint stock company with a two-tier management system. According to its Articles of Association, the bodies of the company are the General Meeting of

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

Shareholders, the Supervisory Board / SB / and the Management Board / MB /. The Bank is managed by the Management Board. The Bank is represented before third parties by the executive directors and the members of the Management Board. The Supervisory Board carries out general supervision and preliminary, current and subsequent control over the activity of the Management Board.

Management Board

The rules for the appointment of members of the Management Board are set out in Article 42 (2) (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 of 31.12.2020, the Management Board consists of 4 members, who are elected by the Supervisory Board for a term of five years and can be replaced and re-elected without restrictions and at any time by the Supervisory Board. The Management Board of Texim Bank AD complies with the Code of Ethics, last updated in January 2021.

The Management Board reports to the Supervisory Board on the activity and condition of the Bank at least once every three months.

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 capable 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 of December 31, 2020, the Supervisory Board of the Bank consists of 5 individuals who have been elected by the General Meeting for a term of five years and may 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/


MARIYA VIDOLOVA
/EXECUTIVE DIRECTOR/



REPORT

On the implementation of the remuneration policy of the members of the Supervisory Board and the Management Board of „Texim Bank” AD

This report has been prepared on the basis of Art. 12, para. 1 of Ordinance № 48 of the FSC of 20.03.2013 and Art. 4, item 6 of the Remuneration Policy in „Texim Bank” AD. Reflects the actual application of the criteria for determining of the remuneration of the members of the Supervisory and Management Board of the Bank.

Information on how the remuneration policy has been implemented in 2020

1. Information on the decision-making process in determining the remuneration policy, including, if applicable, information on the mandate and composition of the remuneration committee, the names of the external consultants whose services have been used in determining remuneration policy.

The remuneration policy of „Texim Bank” AD has been developed by the Supervisory Board in accordance with the adopted regulations and the Articles of Association of the Bank and adopted by the General Meeting of Shareholders.

During the reporting period the Bank does not have a Remuneration Committee.

No external consultants were used in the development of the Remuneration Policy.

2. Information on the relative weight of the variable and fixed remuneration of the members of the management and supervisory bodies

The members of the Supervisory Board and the Management Board receive only a fixed remuneration, which is voted by the General Meeting of Shareholders. No variable remuneration is anticipated at this stage.

3. Information on the criteria for achieved results, on the basis of which options on shares, shares of the Bank or other type of variable remuneration are provided and an explanation of how the criteria under Art. 14, para. 2 and 3 of Ordinance № 48 of the FSC contribute to the long-term interests of the Bank

At this stage „Texim Bank” AD does not provide additional remuneration to the members of the Supervisory and Management Boards such as shares of the Bank, options on shares and other appropriate financial instruments.

4. Explanation of the applied methods for assessment of whether the criteria for the achieved results are met

At present, the Bank does not apply evaluation methods in order to meet the criteria for the achieved results.

5. Clarification of the relationship between remuneration and results achieved

At the moment, the decisions for the received remunerations are adopted by the General Assembly, or the management contracts.

6. Basic payments and justification of the annual scheme for payment of bonuses and / or all other non-monetary additional remunerations

The Bank does not apply a scheme of payment of bonuses and / or other non-monetary additional remunerations.

7. Description of the main features of the supplementary voluntary pension scheme and information on the contributions paid and / or due by the Bank in favour of the Director for the relevant financial year, where applicable

The Bank does not pay on its behalf contributions for additional voluntary pension insurance to the members of the Supervisory and Management Boards.

8. Information on the periods of deferral of variable remuneration payment

The Bank does not provide for the payment of variable remuneration, therefore there is no such information.

9. Information on the compensation policy upon termination of contracts

Upon termination of the contracts with the members of the Supervisory Board, no compensations are provided. Upon early termination of the contracts with the members of the Management Board, the Bank shall provide compensation in the amount of the quarterly gross remuneration.

10. Information about the period during which the shares cannot be transferred and the options on shares cannot be exercised, in case of variable remuneration based on shares

The Bank does not provide for such remuneration.

11. Information on the policy for keeping a certain number of shares until the end of the mandate of the members of the management and control bodies after the expiration of the period under item 10

The Bank does not follow such a policy, as it does not provide for this type of remuneration.

12. Information on the contracts of the members of the management and supervisory bodies, including the term of each contract, the termination period notice and details of the compensation and / or other payments due in case of early termination

The Supervisory Board of „Texim Bank” AD consists of 5 members:

12.1. Apostol Lachezarov Apostolov - Chairman of the Supervisory Board
Term of the contract - until the expiration of the mandate
Termination notice period - without notice
Details on compensations and / or other payments due in the event of early termination - no other benefits and / or payments due in the event of early termination are foreseen.

12.2. Milen Georgiev Markov - Deputy Chairman of the Supervisory Board
Term - until the expiration of the mandate
Termination notice period - without notice.
Details of compensations and / or other payments due in the event of early termination - no other benefits and / or payments due in the event of early termination are foreseen.

12.3. Veselin Raychev Morov - Member of Supervisory Board
Term - until the expiration of the mandate.
Termination notice period - without notice.
Details on compensations and / or other payments due in the event of early termination - no other benefits and / or payments due in the event of early termination are foreseen.

12.4. Ivelina Kancheva Shaban - member of Supervisory Board
Term - until the expiration of the mandate.
Termination notice period - without notice.
Details on compensations and / or other payments due in the event of early termination - no other benefits and / or payments due in the event of early termination are foreseen.

12.5. Petar Guerguiev Hristov - member of Supervisory Board
Term - until the expiration of the mandate.
Termination notice period - without notice.
Details on compensations and / or other payments due in the event of early termination - no other benefits and / or payments due in the event of early termination are foreseen.

The Management Board consists of 5 members, 1 of which left during the year, consisting of:

12.6. Iglia Dimitrova Logofetova - Chairman of the Board.
Term - until the expiration of the mandate.
Termination notice period - three months' notice.
Details of benefits and / or other payments due in the event of early termination - quarterly gross remuneration.

12.7. Ivaylo Lazarov Donchev - Deputy Chairman of the Management Board and Executive Director.
Term of the contract - until the expiration of the mandate.
Termination notice period - three months' notice.
Details of benefits and / or other payments due in the event of early termination - quarterly gross remuneration.

12.8. Mariya Petrova Vidolova - Member of the Management Board and Executive Director.

Term of the contract - until the expiration of the mandate.
 Termination notice period - three months' notice.
 Details of benefits and / or other payments due in the event of early termination - quarterly gross remuneration.

12.9. Dimitar Iliev Zhilev - Member of the Management Board
 Term of the contract - until the expiration of the mandate.
 Termination notice period - three months' notice.
 Details of benefits and / or other payments due in the event of early termination - quarterly gross remuneration.

12.10. Temelko Valentinov Stoychev - Member of the Management Board and Executive Director
 The contract was terminated as of March 9, 2020.

13. The full amount of the remuneration and other benefits of the members of the management and supervisory bodies for the respective financial year

The members of the Supervisory Board received remunerations in 2020 in the amount of BGN 270,000.

The members of the Management Board received remunerations in 2020 in the amount of BGN 348 thousand.

14. Information on the remuneration of any person who has been a member of a management or supervisory body of a public company for a specified period during the respective financial year:

(a) full amount of the remuneration paid and / or accrued to the person for the respective financial year:

The total amount of the remuneration of the members of the Management Board and the Supervisory Board of Texim Bank AD for the financial year 2020 is respectively:

Supervisory Board	BGN 270 000.00
Management Board	BGN 348 231.37
Total:	BGN 618 231.37

Remunerations paid to the members of the Supervisory Board and the Management Board in 2020:

Supervisory Board			
1	Apostol Apostolov	Chairman of the Supervisory Board	54 000.00
2	Milen Markov	Deputy Chairman of the Supervisory Board	54 000.00
3	Veselin Morov	Member of the Supervisory Board	54 000.00
4	Peter Hristov	Member of the Supervisory Board	54 000.00
5	Ivelina Shaban	Member of the Supervisory Board	54 000.00

Management Board			
1	Iglika Logofetova	Chairman of the Board	40 347.22
2	Ivaylo Donchev	Deputy Chairman of the Management Board and Executive Director	164 847.22
3	Maria Vidolova	Member of the Management Board and Executive Director	80 694.44
4	Temelko Stoychev	Member of the Management Board and Executive Director	25 437.86
5	Dimitar Zhilev	Member of the Management Board	36 904.63

b) remuneration and other tangible and intangible incentives received by the individuals from companies in the same group;

No non-monetary remuneration was received during the year. There are no contingent or deferred remunerations incurred during the year. There is no amount due by the Bank for the payment of pensions, retirement benefits or other similar benefits.

c) remuneration received by the individuals in the form of distribution of the profit and / or bonuses and the grounds for their granting;

The members of the Supervisory Board and the Management Board did not receive any remuneration in the form of profit distribution and / or bonuses.

d) any additional payments for services provided by the individuals outside their normal functions, where such payments are eligible under the contracts concluded with them;

There are no such payments.

e) the compensation paid and / or accrued on the occasion of the termination of its functions during the last financial year;

Compensation paid to Temelko Valentinov Stoychev for unused leave in the amount of BGN 8,000.

f) an overall assessment of all non-monetary benefits equivalent to remuneration other than those referred to in points "a" to "e";

There are none.

g) information on all loans granted, payments for social and household expenses and guarantees from the company or its subsidiaries or other companies that are subject to consolidation in its annual financial statements, including data on the outstanding balance and interest;

There are none.

15. Information regarding shares and / or stock options and / or other share-based incentive schemes:

a) the number of options offered on shares, or the shares granted by the company during the respective financial year and the conditions under which they were offered, respectively granted;

There are none.

b) number of options exercised on shares during the respective financial year and for each of them, number of shares and the exercise price of the option or the value of the interest under the incentive scheme based on shares at the end of the financial year;

There are none.

c) number of unexercised options on shares at the end of the financial year, including data on their price and date of exercise and essential conditions for exercising the rights;

There are none.

d) any changes in the terms and conditions of existing stock options accepted during the financial year.

There are none.

16. Annual change in the remuneration, the company's results and the average full-time remuneration of non-directors for the previous minimum five financial years, presented together in a way that allows comparison

	2015 BGN	2016 BGN	Change in 2016 compared to 2015%	2017 BGN	Change in 2017 compared to 2016%	2018 BGN	Change in 2018 compared to 2017%	2019 BGN	Change in 2019 compar ed to 2018%	2020 BGN	Change in 2020 compared to 2019%
Gross remuneration of the members of the Supervisory Board and the Management Board - total	616 800	680 999	10.41	694 610	2.00	706 800	1.75	692 308	-2.05	618 231	-10.70
Average amount of remuneration of the members of the Supervisory Board and the Management Board who are not executive directors on a full-time basis - annually	48 000	50 314	4.82	50 571	0.51	50 571	0.00	48 546	-4.00	49 607	2.19
Gross remuneration of employees of Texim Bank AD who are not directors (not members of the Management Board and the Supervisory Board)	3 528 584	4 053 720	14.88	4 643 612	14.55	5 044 460	8.63	5 703 345	13.06	5 404 100	-5.25
Average annual remuneration based on full-time employees of Texim Bank AD, who are not directors (not members of the Management Board and the Supervisory Board)	14 641	15 240	4.09	16 068	5.44	18 683	16.28	20 664	10.60	20 865	0.97
Profit for the year	96 263	101 380	5.32	119 588	17.96	158 946	32.91	298 393	87.73	154 446	-48.24
Average number of personnel	241	266		289		270		276		259	

17. Information on exercising the possibility to request a refund of the variable remuneration

No variable remuneration is provided.

18. Information on any deviations from the procedure for implementing the remuneration policy in relation to extraordinary circumstances, including an explanation of the nature of the extraordinary circumstances and an indication of the specific components that have not been implemented.

There are no deviations from the procedure for the implementation of the remuneration policy.

Remuneration policy implementation program for the next financial year or longer period.

The Bank agrees to follow the rules set out in the Remuneration Policy of the members of the Management and Supervisory Boards regarding the payment of remuneration for a longer period - until the end of the mandate. Management consider that the criteria set in the policy for determining remuneration currently in place are effective, in view of the financial results achieved during the reporting period. In the event of significant change in the financial and economic indicators, regardless of whether they are in positive or negative direction, the Remuneration Program will be revised and the changes reflected in it will be duly adopted.

IVAYLO DONCHEV
/EXECUTIVE DIRECTOR/



MARIYA VIDOLOVA
/EXECUTIVE DIRECTOR/

26 March 2021, Sofia

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 2020, 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 2020, 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 Independence 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 requirements of IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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="199 222 617 254">Impairment of loans and receivables</p> <p data-bbox="199 279 743 331">Notes 7 and 30.1 to the separate financial statements</p> <p data-bbox="199 390 743 604">Loans and receivables with a carrying amount of BGN 156,571 thousand represent a significant part of the Bank's assets as of December 31, 2020 (34%). The determined individual and collective impairment related to expected credit losses is BGN 2,517 thousand as of the same date, as disclosed in Note 7 to the separate financial statements.</p> <p data-bbox="199 636 743 716">The Bank applies impairment models based on expected credit losses in accordance with the requirements of IFRS 9 Financial Instruments.</p> <p data-bbox="199 747 743 932">In early 2020, the spread of a new coronavirus (Covid-19) worldwide caused difficulties in the business and economic activities of a number of enterprises and entire economic sectors. This event and its continuing effect on the economic environment also had an impact on the Bank's operations.</p> <p data-bbox="199 963 743 1068">The assessment of expected credit losses from impairment of loans and receivables requires the Bank's management to apply accounting estimates in the following areas:</p> <ul data-bbox="199 1073 743 1430" style="list-style-type: none"> - the classification of exposures by impairment phases and the identification of exposures with deteriorating credit quality; - determining the probability of default and the expected loss in default; - the assumptions included in the risk parameters of the models for determining the expected credit losses, with input data obtained from internal and external sources; - the factors involved and the expected scenarios, influenced by the wide range of potential economic consequences of the impact of Covid-19, which may have an effect on the expected credit losses. <p data-bbox="199 1461 743 1646">Explanatory Notes 3.1 "Accounting Estimates", 3.2 "Significant Sources of Uncertainty", 30.1 "Credit Risk" from the separate financial statements provide detailed information on the estimates and assumptions of the Bank's management in forming the expected credit losses from impairment of loans and receivables as at 31 December 2020.</p> <p data-bbox="199 1677 743 1892">Due to the significance of the Bank's loans and receivables and the need for management to make significant judgments, estimates and assumptions in classifying and measuring them, as well as determining the expected credit loss in accordance with IFRS 9 "Financial Instruments", we concluded that determining the expected credit losses of loans and receivables is a key audit matter.</p>	<p data-bbox="768 222 1442 359">We analysed the compliance of the Bank's expected credit loss models with the requirements of IFRS 9 Financial Instruments, taking into account the effects of the Covid-19 pandemic and its impact on the banking industry. During our joint audit, our audit procedures included, but are not limited to, the following:</p> <ul data-bbox="768 390 1442 1892" style="list-style-type: none"> - examining inquiries and gaining an understanding of the processes, policies and criteria and models used by the Bank to classify and subsequently report loans and receivables and verify compliance of these criteria with the requirements of IFRS 9 "Financial Instruments". - verification and analysis of the adequacy of the policies, procedures and implemented controls on the classification processes, subsequent reporting and monitoring in terms of their compliance with IFRS and good practices in the sector. - procedures for checking the extent to which the controls related to the monitoring of the granted loans have been established and implemented by the Bank, as well as an assessment of their design and operational efficiency. - verification and assessment of the processes for classification of loans and determination of the necessary impairment on a collective and individual basis, incl. what changes have occurred in the Bank's procedures and models as a result of the Covid-19 pandemic. We sampled specific receivables from the loan portfolio, applying a risk-based approach, and performed a test of details as part of the substantive procedures regarding the classification and value of loans. We analysed the financial condition of the borrowers and examined whether there were deviations in compliance with the contractual terms. We have considered the impact of economic conditions and the Covid-19 pandemic on the industries concerned, the valuation of collateral assets and other factors that may affect the collection of sampled loans and receivables. - inspection and analysis of how the Bank has applied the Procedure for deferral and settlement of due liabilities to banks, adopted by the Board of the Association of Bulgarian Banks and approved by the BNB (the so-called moratorium on payments to the most affected businesses due to deteriorating economic situation); for a sample of specific exposures, we performed an assessment of compliance with the terms of the Deferral Rules. - verification of compliance with and analysis of the methodology and key assumptions used in the application of the models for expected credit losses and calculation of impairments for granted loans and receivables, incl. probability of default, loss in default, expected future cash inflows, discounted to their present value and the impact of macroeconomic indicators and future scenarios used. We analysed the sensitivity of collective impairment to changes in the assumptions used in the modelling with respect to the influence of Covid-19. We checked the calculations of the Bank's management for the expected credit losses on a collective and individual basis. We analysed the used input data on a sample basis and performed alternative recalculations. We compared the results obtained with our

Key audit matter	How our audit addressed the key audit matter
	<p>expectations and estimates based on our professional judgment.</p> <p>- reviewing and assessing the adequacy of disclosures in the separate financial statements, including disclosures of key assumptions and judgments related to the application of IFRS 9, the classification and impairment of loans and receivables, credit risk and the impact of the Covid-19 pandemic on the activities of The bank.</p>

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, incl. the corporate governance statement and the report on compliance with the remuneration policy, 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 ISAs described in section "Information Other than the separate financial statements and Auditor's Report Thereon", with respect to the annual report on activities, incl. the corporate governance statement and the report on compliance with the remuneration policy, 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 Article 100m, paragraph (10) in relation to Article 100m, paragraph (8), subparagraphs (3) and (4) of Bulgarian Public Offering of Securities Act, as well as Article 100m, paragraph 14 in relation to Article 116c, paragraph (1) of Bulgarian Public Offering of Securities Act, applicable in Bulgaria.

Statement Pursuant to Article 37, Paragraph (6) of Bulgarian Accountancy Act

Based on our procedures, our opinion is that:

- The information included in the separate management report on the activities for the financial year for which the separate financial statements have been prepared, is consistent with the separate financial statements.
- The separate 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.
- As a result of the acquired knowledge and understanding of the Bank's activity and the environment in which it operates, we have not identified any cases of material misstatement in the individual management report.
- The corporate governance statement for the financial year for which the separate financial statements have been prepared contains the required information in accordance with the applicable legal requirements, including Article 100m, paragraph (8) of Bulgarian Public Offering of Securities Act.
- The report on compliance with the remuneration policy for the financial year for which the separate financial statements have been prepared has been prepared and is in compliance with the requirements of the ordinance pursuant to Article 116c, paragraph 1 of Bulgarian Public Offering of Securities Act.

Additional reporting in connection with Ordinance №58/2018 of the Financial Supervision Commission

Statement in connection with Art. 11 of Ordinance №58/2018 of the FSC on the requirements for protection of financial instruments and cash of clients, for product management and for providing or receiving remuneration, commissions, other monetary and non-monetary benefits

Based on the performed audit procedures and the acquired knowledge and understanding of the Bank's activities in the course and context of our audit of the separate financial statements as a whole, our opinion is that the established and applied organization in connection with the storage of client assets meets the requirements of Art. 3-10 of Ordinance № 58 of the FSC and Art. 92-95 of the Markets of Financial Instruments Act regarding the activity of the Bank in its role of investment intermediary.

Statement Pursuant to Article 100m, Paragraph (10) in respect to Article 100m, Paragraph (8), subparagraphs 3 and 4 of Bulgarian Public Offering of Securities Act

Based on the procedures performed and our knowledge of the Bank and the environment in which it operates, in our opinion, there is no material misstatement in the description of the main characteristics of the internal control system and of the risk management system of the Bank in connection with the financial reporting process and also in the information pursuant to Article 10, paragraph 1, items "c", "d", "f", "h" and "i" of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids, which are included in the corporate governance statement, being a component of the annual management report.

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

Statement on Article 100m, paragraph 4, subparagraph (3), item "b" of 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 2020, 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.

Statement on Article 100m, paragraph (4), subparagraph 3, item "c" of 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 2020, 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 Pursuant to Article 10 of Regulation (EC) № 5372014/ in relation to Article 59 of Bulgarian 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.

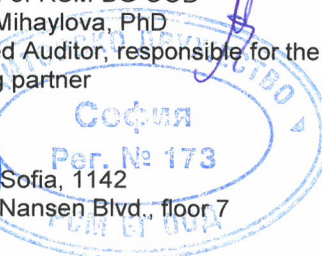
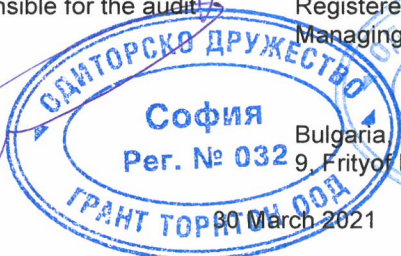
- "Grant Thornton" OOD and "RSM BG" OOD were appointed as statutory auditors of the separate financial statements of the Bank for the year ended 31 December 2020 by the general meeting of shareholders held on 24 September 2020 for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended 31 December 2020 represents fourth total consecutive statutory audit engagement for the Bank carried out by "Grant Thornton" OOD and third 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.
- We hereby confirm that no prohibited non-audit services referred to in art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the 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
9, Frityov Nansen Blvd., floor 7



30 March 2021

TEXIM BANK AD

SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

All amounts are in thousand Bulgarian Leva, unless otherwise stated

	Note	As at 31.12.2020	As at 31.12.2019
ASSETS			
Cash and balances with the Central Bank	4	50,767	56,537
Financial assets at fair value through profit or loss	5	29,554	25,502
Financial assets at fair value through other comprehensive income	6	80,644	36,227
Credits and receivables, net	7	219,216	169,329
Receivables under repurchase agreements of securities	8	31,208	27,464
Debt instruments at amortized cost	9	5,461	5,524
Property, plant and equipment	11	20,812	19,945
Investment properties	12	11,382	13,752
Intangible assets	11	2,005	2,218
Investments in subsidiaries	13	451	451
Other assets	14	11,123	6,287
TOTAL ASSETS		462,623	363,236
LIABILITIES			
Deposits and loans from credit institutions	15	1,630	1,622
Deposits from customers other than credit institutions and lease liabilities	16	397,096	320,951
Issued debt securities	16.3	22,207	-
Tax liabilities	17	306	289
Other liabilities	18	2,425	1,952
Provisions	19	68	238
TOTAL LIABILITIES		423,732	325,052
EQUITY			
Share capital	20	27,995	27,995
Retained earnings		1,035	298
Revaluation reserves	20	7,280	7,609
Legal reserves	20	2,449	2 150
Other reserves	20	132	132
TOTAL EQUITY		38,891	38,184
TOTAL LIABILITIES AND EQUITY		462,623	363,236

These separate financial statements were approved by the Management Board of Texim Bank AD on March 26, 2021.

Ivaylo Donchev
Executive Director

Mariya Vidolova
Executive Director

Milena Parusheva
Chief Accountant

Audited according to the auditor's report dated 30 March 2021.

Grant Thornton Ltd.

Grant Thornton Ltd.

RSM BG Ltd.

Mariy Apostolov
Managing partner

Silvia Dinova
Registered auditor

Marijana Mihaylova
Registered auditor
Managing partner

The notes to the separate financial statements from pages 5 to 71 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 2020

All amounts are in thousand Bulgarian Leva, unless otherwise stated

	Note	The year ended 31.12.2020	The year ended 31.12.2019
Interest income	21	10,557	10,985
Interest expense	21	(1,727)	(1,484)
Net income from interest		<u>8,830</u>	<u>9,501</u>
Dividend income		335	742
Fee and commission income	22	4,291	4,656
Fee and commission expenses	22	(733)	(947)
Net fee and commission income		<u>3,558</u>	<u>3,709</u>
Net gains on financial assets at fair value through profit or loss	23	1,808	2,118
Net gains on financial assets at fair value through other comprehensive income	23	663	369
Net gains/(losses) on foreign currency revaluation		(33)	(9)
Net gains on assets written-off, other than assets for sale	11, 12	1,084	22
Net gains on non-current assets classified as held for sale	24	-	1
Change in the fair value of investment property	12	537	643
Other operating expenses, net	25	(1,636)	(1,545)
Administrative expenses	26	(11,412)	(12,224)
Depreciation/amortization	11	(3,773)	(3,499)
Net income/(expenses) from impairment and uncollectability	27	86	489
Impairment of non-financial assets costs		(5)	(3)
Income from /(expenses for) provisions	19	112	(16)
PROFIT BEFORE TAXATION		<u>154</u>	<u>298</u>
Income tax	17	-	-
PROFIT FOR THE YEAR		<u>154</u>	<u>298</u>
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of non-financial assets		176	948
Income tax related to the revaluation of non-financial assets		(18)	(95)
Changes in the fair value of equity instruments at fair value through other comprehensive income		37	424
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		357	266
OTHER COMPREHENSIVE INCOME		<u>552</u>	<u>1,543</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>706</u>	<u>1,841</u>
Earnings per share (in BGN)	28	<u>0,006</u>	<u>0,011</u>

These separate financial statements were approved by the Management Board of Texim Bank AD on March 26, 2021.

Ivaylo Donchev
Executive Director

Mariya Vidolova
Executive Director

Milena Parusheva
Chief Accountant

Audited according to the auditor's report dated 30 March 2021.

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 71 from an integral part of these financial statements.

TEXIM BANK AD

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2020

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 2019	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	-	-	298	1,841
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
Profit for the year	-	-	-	-	154	1,881
Increase in retained earnings from previous years with revaluation reserves of reclassified financial instruments	-	(881)	-	-	881	-
Other comprehensive income	-	552	-	-	-	552
Total comprehensive income	-	(329)	-	-	1,035	706
Increase of legal reserves with undistributed profit	-	-	298	-	(298)	-
Other changes in equity	-	-	1	-	-	1
BALANCE AS AT 31 December 2020	27,995	7,280	2,449	132	1,035	38,891

These separate financial statements were approved by the Management Board of Texim Bank AD on March 26, 2021.

Ivaylo Donchev
Executive Director

Mariya Vidolova
Executive Director

Milena Parusheva
Chief Accountant

Audited according to the auditor's report dated 30 March 2021.

Grant Thornton Ltd.

Grant Thornton Ltd.

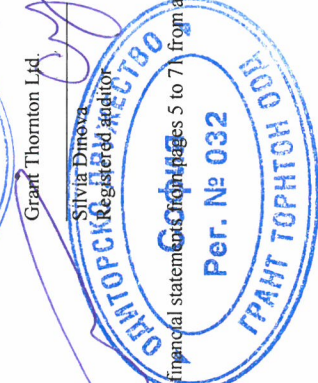
Mariy Apostolov
Managing partner

Stilvia Dimova
Registered auditor

RSM BG Ltd.

Mariana Mihaylova
Registered auditor
Managing partner

The notes to the separate financial statements on pages 5 to 71 form an integral part of these financial statements.



TEXIM BANK AD

SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

All amounts are in thousand Bulgarian Leva, unless otherwise stated

Note	The Year ended 31.12.2020	The Year ended 31.12.2019
OPERATING ACTIVITIES		
	154	298
Net profit		
Adjustments for non-monetary items		
Depreciation/amortization	11 3,773	3,499
Allowances for impairment losses and uncollectability, net	27 (86)	(489)
Net result from revaluation of investment properties and assets held for sale	13, 25 (537)	(643)
Net result of operations with financial assets at fair value through other comprehensive income	23 (663)	(369)
Net result of operations with financial assets at fair value through profit or loss	23 (1,808)	(2,118)
Net result from disposals other than assets held for sale	(1,084)	(23)
Costs of provisions	19 (112)	16
Impairment of non-financial assets	18 5	3
Net interest income	(8,830)	(9,501)
Dividends received	(335)	(742)
Other operating income from operating leases	(23)	-
	(9,546)	(10,069)
Increase in loans and receivables	(5,908)	(20,340)
Increase of receivables under repurchase agreements of securities	(3,689)	(12,580)
Decrease of financial assets at fair value through profit or loss	(2,303)	899
Increase of other assets	(543)	(567)
(Decrease)/Increase of deposits from credit institutions	8	(21,169)
Increase of deposits from clients other than credit institutions	73,839	77,047
Increase/(Decrease) in other liabilities	414	260
NET CASH FLOW FROM OPERATING ACTIVITIES	52,272	13,481
INVESTING ACTIVITIES		
Cash payments for the acquisition of financial assets at fair value through other comprehensive income	(43,706)	(3,568)
Cash payments for the acquisition of financial assets at amortized cost	(10)	58
Payments for acquisition of property, plant and equipment, net	(692)	(1,873)
Proceeds from sales of property, plant and equipment	47	79
Payments for acquisition of intangible assets	(168)	(256)
Interests received	9,853	10,242
Interest paid	(1,019)	(820)
Dividends received	394	382
NET CASH FLOW FROM INVESTING ACTIVITIES	(35,301)	4,244
FINANCING ACTIVITIES		
Debt securities issued	21,993	-
Lease contract payments	(1,803)	(1,770)
NET CASH FLOW FROM FINANCING ACTIVITIES	20,190	(1,770)
Net increase in cash and cash equivalents	37,161	15,955
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	74,012	58,057
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	111,173	74,012

These separate financial statements were approved by the Management Board of Texim Bank AD on March 26, 2021.

Ivaylo Donchev
Executive Director

Mariya Vidolova
Executive Director

Milena Parusheva
Chief Accountant

Audited according to the auditor's report dated 30 March 2021.

Grant Thornton Ltd.

Grant Thornton Ltd.
Silvia Dinova
Registered auditor

RSM BG Ltd.

Mariana Mihaylova
Registered auditor
Managing partner

The notes to the separate financial statements from pages 5 to 71 from an integral part of these financial statements.

TEXIM BANK AD

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2020 (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 Shaban, Mr. Veselin Morov.

The Management Board is composed of: Mrs. Iglia Logofetova, Mr. Ivaylo Donchev, Mrs. Mariya Vidolova, Mr. Dimitar Zhilev.

The Bank is represented before third parties, together by the representatives: Mr. Ivaylo Lazarov Donchev, Mrs. Mariya Petrova Vidolova.

The Bank operates through Head Office, offices and outsourced work stations. As of December 31, 2020 the number of offices is 33. As of December 31, 2020 the number of employees of the Bank is 271 persons.

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 2020. 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 2021.

These financial statements have been prepared in accordance with the Bulgarian national legislation. The

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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 at fair value through profit and loss, financial assets at fair value through other comprehensive income 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.

These separate financial statements have been prepared in accordance with the going concern principle and taking into account the possible effects of the continuing impact of the Covid-19 coronavirus pandemic. Even as of the date of preparation of the separate financial statements, travel limitations are effective, quarantine measures and restrictions are in force. Businesses have to deal with challenges related to reduced revenues and disrupted supply chains. While some countries have begun to ease the restrictions, the release of measures is gradual in Bulgaria with uncertainty about the extension of measures for indefinite future periods. In these circumstances, the Bank's management has analyzed and assessed the Bank's ability to continue as a going concern based on available information about the foreseeable future and management expects that the Bank has sufficient financial resources to continue its operations in the near future and continues to apply the going concern principle in preparing the separate financial statements.

2.2 Significant events in 2020

State of emergency in Bulgaria from March 13, 2020 to May 13, 2020

During the reporting period, the company's operations were affected by the global Covid-19 pandemic. In early 2020, due to the spread of a new coronavirus (Covid-19) worldwide, difficulties arose in the business and economic activities of a number of enterprises and entire economic sectors. On March 11, 2020, the World Health Organization announced the presence of a coronavirus pandemic (Covid-19). On March 13, 2020, the National Assembly decided to declare a state of emergency for a period of one month. On March 24, 2020, the Parliament adopted the Law on Measures and Actions during the State of Emergency, announced by a decision of the National Assembly of March 13, 2020, and on overcoming the consequences (Title, SG No. 44 of 2020, effective 14.05.2020)". Subsequently, the state of emergency was extended for another month and remained in force until 13 May 2020.

Emergency epidemic situation in Bulgaria from May 14, 2020 to April 30, 2021

On May 13, 2020, the Council of Ministers declared an epidemic emergency situation, as of May 14, 2020, which was extended periodically before its expiration. As of the date of preparation of these financial statements, the emergency epidemic situation was extended by the government to April 30, 2021

Effect of Covid-19 on the financial statements of the Bank in 2020 and measures taken

Despite the measures taken in Bulgaria and around the world by supervisors and regulators to limit the negative impact on markets and economies, the spread of the virus adversely affects economic activity, stock markets, tourism, transport and many other industries. The management of Texim Bank AD promptly took measures to ensure the continuity of activities in the current environment by establishing a temporary crisis management committee, updating the Business Continuity Plan and the Bank's Contingency Plan, preparing an Action Plan, including the most important areas of activity, incl. the activity of the operational units, front offices and cash halls, etc.

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The Bank, in its capacity as a public company and investment intermediary, periodically disclosed any relevant information concerning the impact of COVID-19 on key indicators in order to accurately present data on its financial position and results of operations and continued to apply risk management. As of the date of preparation of the separate financial statements, there is a partial materialization of the risks of the epidemic, and it is too early to make impact assessments on the Bank.

In pursuance of the provisions of the EBA Guidelines, Texim Bank AD has developed and implemented an Operational Plan in order to limit the risks arising from the COVID-19 pandemic. The planned actions are aimed at a reliable assessment of the probability of default, respectively the identification and differentiation of purely temporary financial difficulties caused by the pandemic and leading to temporary liquidity difficulties and the deterioration of loans of a more lasting economic nature.

The Bank is working towards adapting its rating indicators and risk parameters in order to detect early signs of financial difficulties of viable but difficult borrowers and to differentiate between borrowers with permanent difficulties. The Bank continues to provide facilities to borrowers with permanent difficulties in accordance with Art. 47b of Regulation / EU / 575/2013, assessing whether the modifications meet the definition of relief and the criteria for financial difficulties. Regarding the identification of exposures with restructuring measures that do not meet the criteria for a general moratorium on payments, the Bank continues to assess changes in the terms of on a case-by-case basis and classify them according to the current regulatory framework and report in accordance with Regulation (EU) 680/2014.

Texim Bank AD has adjusted its credit policy to the economic circumstances and has adopted a strongly conservative approach, as one of the measures is to limit loans to high-risk economic sectors. The Bank has taken steps to redistribute its limits by economic sectors with a reduction to the most affected sectors.

On 10.04.2020 the Governing Council of the Bulgarian National Bank approved the Procedure for deferral and settlement of due liabilities to banks and their subsidiaries - financial institutions submitted by the Association of Banks in Bulgaria (ABB) in connection with the introduced on 13.03.2020. by the National Assembly state of emergency in connection with the pandemic of COVID-19 ”/ Deferral Rules /. The procedure is based on the Guidelines on Legislative and Private Moratoriums on Credit Payments in relation to COVID-19 (EBA / GL / 2020/02) adopted by the European Banking Authority (EBA). In December 2020, the Deferral Procedure was extended, with the changes related to: extension of the deadline for submitting requests by bank customers until the end of March 2021; extension of the deadline for deferral of obligations - until December 31, 2021, but for no more than 9 months; introducing the possibility that the obligations for which a deferral request was submitted before 30 September 2020 may be additionally deferred, the total period of all deferrals not exceeding 9 months.

Quantitative and qualitative assessment of the effect of the spread of the virus on trade, economic development and key indicators of the Bank is difficult to do at the moment, given the dynamic development of the pandemic in the country and around the world, but it is possible that the pandemic effect negatively on the quality of the Bank's loan portfolio and lead to volatility of the price and credit risk associated with the Bank's investments in the short term due to volatility in the financial markets, uncertain and contradictory data on Bulgaria's macroeconomic indicators and the unknown term and scope of measures, undertaken by the Government of Bulgaria for restrictions on the population and industries, as well as for the undertaken mechanisms for business support, including the banking moratorium.

The effect of the credit moratorium temporarily postponed the registration of unfavorable changes in the quality of the loan portfolio of Texim Bank AD. As of the end of December 2020, the Bank has deferred under the Moratorium 163 loans worth BGN 53.8 million, of which 22 are loans to enterprises worth BGN

TEXIM BANK AD

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50.4 million. With the extension of the Moratorium until 31.03 .2021 and the deferral of loans until the end of 2021, the Bank will continue to offer appropriate solutions for its customers, while continuing to monitor deferred loans and its loan portfolio.

Borrowers with deferred obligations under the Moratorium:

Customer type	Performing			Non-performing		
	number	Gross book value '000 BGN	Net book value '000 BGN	number	Gross book value '000 BGN	Net book value '000 BGN
Enterprises	22	50,352	50,344	-	-	-
including Large corporate clients	8	34,634	34,627	-	-	-
including Small and medium enterprises	14	15,718	15,717	-	-	-
Households	137	3,440	3,405	4	32	12
including Mortgages	8	848	848	-	-	-
including Consumer loans	129	2,592	2,557	4	32	12
Total	159	53,792	53,749	4	32	12

The following table presents the loans under the moratorium, meeting the requirements of EBA, distributed according to the period of application of the moratorium as of 31.12.2020.

Customer type	Number	Total	Expired With Gross balance sheet value '000 BGN	With remaining period under the moratorium		
				up to 3 m.	from 3 m. to 6 months	from 6 m. to 9 months
			Gross balance sheet value '000 BGN	Gross balance sheet value '000 BGN	Gross balance sheet value '000 BGN	Gross balance sheet value '000 BGN
Enterprises	22	50,352	49,673	679	-	-
including Small and medium enterprises	14	15,719	15,040	679	-	-
Households	141	3,472	3,042	369	7	54
Total	163	53,824	52,715	1,048	7	54

Issuance of bonds of the Bank

In 2020 the Bank issues 22,000 ordinary, dematerialized, registered, interest-bearing, freely transferable, unsecured, convertible corporate bonds with a single nominal value of BGN 1,000, with a total amount of BGN 22,000,000, with a maturity of the bond loan 7 years and a fixed annual interest rate of 2.2%. According to a decision of the BNB Management Board dated 29.09.2020, the funds raised through the bonds in the amount of BGN 22,000 thousand are included in the tier 2 capital of Texim Bank AD, in accordance with the requirements of Art. 63 of Regulation № 575/2013 of the European Parliament and of the Council of 26 June 2013.

The funds raised are used by Texim Bank AD in accordance with the objectives set out in the Prospectus, as well as in accordance with the Bank's business development strategy in lending and introducing additional products and services and to increase the efficiency of existing and protection against potential unfavorable development of the macroeconomic environment and provision of additional capital buffers. Proceeds from the bonds were not used to acquire assets other than the Bank's ordinary activities.

2.3 Changes in IFRS

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

The Bank applies the following new standards, amendments and interpretations to IFRS, developed and published by the International Accounting Standards Board, which are mandatory for application from the annual period beginning on January 1, 2020, but they do not have a significant effect on their application on the financial result and the financial condition of the Bank:

- IAS 1 and IAS 8 (amended) - Definition of materiality, effective from 1 January 2020, adopted by the EU
- Amendments to the references to the Conceptual Framework for Financial Reporting in force since 1 January 2020, adopted by the EU
- IFRS 3 (amended) - Business Definition effective from 1 January 2020, not yet adopted by the EU
- Amendments to IFRS 9, IAS 39 and IFRS 7: Reform of Reference Interest Rates, effective from 1 January 2020, adopted by the EU
- Amendments to IFRS 16 Covid-19 Lease Reductions, effective from 1 June 2020, adopted by the EU

The amendments to IFRS 16 Covid-19-related lease reductions apply only to lessees under leases that have received a rebate or do not owe rent for a specified period as a result of the Covid-19 coronavirus pandemic. In this case, lessees may not consider the reduced rent or simplified rent for the periods until or before June 30, 2021 as a modification of the lease, regardless of whether the lease amounts were subsequently increased after June 30, 2021. In 2020, the Bank received discounts on rental installments of a total value of BGN 23 thousand, which are presented in "Other income" in the individual statement of profit or loss and other comprehensive income.

2.3.2 Standards, amendments and interpretations that have not yet entered into force and are not applied by an earlier date by the Bank

- As of the date of approval of these financial statements, new standards, amendments and interpretations to existing standards have been published, but have not entered into force or have not been adopted by the EU for the financial year beginning on 1 January 2020 and have not been applied from an earlier date by the Bank. They are not expected to have a material effect on the Bank's financial statements. Management expects all standards and amendments to be adopted in the Company's accounting policy in the first period beginning after the date of their entry into force. The changes are related to the following standards:
- Amendments to IAS 1 Presentation of Financial Statements: The classification of liabilities as current and non-current, effective from 1 January 2023, has not yet been adopted by the EU
- Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, effective from 1 January 2022, not yet adopted by the EU
- Annual improvements 2018-2020 effective from 1 January 2022, not yet adopted by the EU
- Amendments to IFRS 4 Insurance Contracts - Postponement of IFRS 9, effective from 1 January 2021, not yet adopted by the EU
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Reform - Phase 2, effective from 1 January 2021, not yet adopted by the EU
- IFRS 14 "Deferred Accounts at Regulated Prices" effective from 1 January 2016, not yet adopted by the EU
- IFRS 17 "Insurance Contracts" effective from 1 January 2023, 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 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 judgements about the recognition and measurement of assets, liabilities, income and expenses. Actual results may differ from management's assumptions, assessments and judgements and, in rare cases, entirely in line with previously assessed results. Information on the material assumptions, estimates and judgements 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 on 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

In measuring expected credit losses, the Bank uses reasonable and supported information about future expectations, which is based on assumptions about future changes in various economic indicators and how they interact, taking into account the possible expected effects that the Covid-19 pandemic could have on the financial condition and financial performance of debtors. See Note 30.1 for more information, including an analysis of the sensitivity of reported credit losses to changes in assumptions regarding 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

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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

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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 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.

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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
- 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 credit losses for these instruments or for this class of instrument 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

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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 impairment conditions are no longer present, than the new net realizable value is used. 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 internal transfer prices (FTP), reflecting the financing and liquidity costs of currencies and maturities.

The revenue share at internal transfer prices by segment is as follows:

- Corporate and Institutional Banking: 45%;
- Retail banking: 26%;
- Money markets and liquidity: 29%.

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.

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 2020 and 2019:

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Properties	From 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%
Assets with the right of use	according to the term of the lease
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

The bank as a lessee

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.

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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 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 2020 and 2019:

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 2020</u>	<u>31 December 2019</u>
USD	1.59386	1.74099
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 2020			
	Level 1	Level 2	Level 3	Total
	BGN '000	BGN '000	BGN '000	BGN '000
Assests held for trading				
– equity securities	18,168	-	1,383	19,551
Investments in securities that are necessarily measured at fair value through profit or loss				
– units in mutual funds and shares of VISA inc.	-	8,523	1,480	10,003
Investments at fair value through other comprehensive income				
– debt securities	62,490	5,308	12,580	80,378
– equity securities	-	-	266	266
Total assets	80,658	13,831	15,709	110,198

	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

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

2020		
Fair value through profit and loss	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
Assets		
Net income from revaluation and transactions with financial assets at fair value through profit and loss	1,150	236
Total	1,150	236
2019		
Fair value through profit and loss	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
Assets		
Net income from revaluation and transactions with financial assets at fair value through profit and loss	1,357	380
Total	1,357	380

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

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	2020			2019		
	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	768	(27)	741	411	817	1,228

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 2020, 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 2020, 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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3.16.1 Financial instruments not measured at fair value

2020

	Non-periodic fair value measurements as at 31 December 2020				Total carrying amount BGN'000
	Level 1	Level 2	Level 3	Total fair value	
	BGN'000	BGN'000	BGN'000	BGN'000.	
Financial assets					
Loans and advances granted	-	-	-	-	-
– Loans and advances to customers at amortized cost	-	-	-	-	-
Investments in securities valued at amortized cost	-	-	185,345	185,345	187,779
– Debt securities	5,600	-	-	5,600	5,461
Total	-	-	-	190,945	193,240
Financial liabilities					
Deposits from banks					
– Money market deposits	-	-	1,630	1,630	1,630
Deposits from clients	-	-	-	-	-
– Term deposits	-	-	178,729	178,729	176,801
– Current accounts	-	-	214,910	214,910	214,910
Debt securities issued	-	-	22,207	22,207	22,207
Total	-	-	417,476	417,476	415,548

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

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	
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

4. CASH AND BALANCES WITH CENTRAL BANKS

	As at 31.12.2020	As at 31.12.2019
Cash on hand	10,332	7,192
Account balances with the Central Bank	40,435	49,345
TOTAL	50,767	56,537

The account balances with the Central Bank as of 31 December 2020 and 2019 include minimum non-interest bearing reserves at the amount of BGN 32,712 thousand and BGN 29,128 thousand, respectively, reserve guarantee fund for securing the payments through the system for gross settlement in real time -

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RINGS in accordance with the requirements of the Central Bank amounting to BGN 1,183 thousand and BGN 891 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 31.12.2020	As at 31.12.2019
Cash on hand	10,332	7,192
Account balances with the Central Bank	40,435	49,345
Nostro accounts in local banks	57,256	8,648
- blocked cash equivalents	(1,666)	(3,065)
Nostro accounts in foreign banks	5,389	7,278
- blocked cash equivalents	(573)	(609)
Deposits with local banks	-	5,223
TOTAL	111,173	74,012

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	As at 31.12.2020	As at 31.12.2019
Financial assets at fair value through profit or loss designated as such on initial recognition under IFRS 9	19,551	17,745
Financial assets at fair value through profit or loss, necessarily designated as such under IFRS 9	10,003	7,757
TOTAL	29,554	25,502

	As at 31.12.2020	As at 31.12.2019
Shares and stocks in local businesses	19,551	17,745
Stocks in collective investment schemes	8,523	7,757
Shares of foreign enterprises	731	-
Debt instruments of foreign enterprises	749	-
TOTAL	29,554	25,502

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6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31.12.2020	As at 31.12.2019
Debt instruments measured at fair value in other comprehensive income	80,378	34,610
Equity instruments measured at fair value in other comprehensive income	266	1,617
TOTAL	80,644	36,227

6.1 Debt instruments measured at fair value through other comprehensive income

	As at 31.12.2020	As at 31.12.2019
Bonds issued by Bulgarian issuers	21,333	15,290
Bulgarian government securities	56,450	13,558
Government securities issued by foreign governments	-	3,083
Bonds issued by foreign issuers	2,595	2,679
TOTAL	80,378	34,610

As of 31 December 2020 Bulgarian government securities in the amount of BGN 25, 505 thousand were pledged to the BNB as collateral for budgetary funds ((31.12.2019: 12 007 thousand), of which government securities at the amount of BGN 20, 655 thousand are measured at fair value through other comprehensive income

As of 31 December 2020, the average interest rate on Bulgarian government bonds denominated in euro is 0,53 % (2019: 5,75 %)

6.2 Equity instruments measured at fair value through other comprehensive income

	As at 31.12.2020	As at 31.12.2019
Capital investments at fair value through other comprehensive income	266	1,617

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

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2020	Fair value	Dividend income recognised
	31.12.2020	2020
Shares and stocks of local companies	166	7
Shares and stocks of foreign companies	100	23
Total equity investments at fair value through other comprehensive income	266	30

2019	Fair value	Dividend income recognised
	31.12.2019	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

The following table shows the movement during the period:

	As at 31.12.2020	As at 31.12.2019
1 January	36,227	34,583
Acquired	70,222	12,427
Sold	(24,632)	(10,261)
Interest and principal payments received	(1,838)	(2,904)
Reclassified financial assets at fair value through other comprehensive income to mandatory fair value through profit or loss	(1,371)	-
Change in revaluation reserve	(487)	689
Impairment for credit losses	(13)	(35)
Net gains on transactions with financial assets at fair value through other comprehensive income	324	119
Net revaluation gains on financial assets at fair value through other comprehensive income	339	250
Increase in retained earnings from previous years from revaluation reserves of reclassified financial instruments	881	-
Other increases, net	992	1,359
31 December	80,644	36,227

7. LOANS AND RECEIVABLES, NET

	As at 31.12.2020	As at 31.12.2019
Loans and receivables from customers, net	156,571	148,180
Resources and deposits from banks provided	62,645	21,149
TOTAL	219,216	169,329

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7.1 Loans and receivables from customers

Analysis by customer type

	As at 31.12.2020	As at 31.12.2019
Private companies	104,168	92,879
Budget	-	-
Households and individuals	46,806	46,206
Financial institutions	8,114	11,724
Impairment for uncollectability	(2,517)	(2,629)
TOTAL	156,571	148,180

Analysis by sector

	As at 31.12.2020	As at 31.12.2019
Individuals	46,806	46,206
Manufacturing	9,946	7,352
Services and others	35,199	23,869
Trade	34,071	29,151
Budget	-	-
Construction	2,108	3,001
Transport	22,451	17,293
Agriculture	1,498	1,634
Finance	7,009	22,303
Impairment for uncollectability	(2,517)	(2,629)
TOTAL	156,571	148,180

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 2020 and 2019 are approximately 3,85% and 4,24%, respectively. The weighted average interest rates on loans in euro for the years ending 31 December 2020 and 2019 are respectively 3,04% and 3,49%.

The effects of Covid-19 on the credit process and credit risk management are presented in Note 30.1.

7.2 Resources and deposits from banks provided

	As at 31.12.2020	As at 31.12.2019
In BGN		
Nostro accounts in local banks	41,230	83
	41,230	83
In foreign currency		
Deposits with local banks	-	5,223
Nostro accounts in foreign banks	5,389	7,278
Nostro accounts in local banks	16,026	8,565
	21,415	21,066
TOTAL	62,645	21,149

The average interest rate on the resources provided to banks in euro for the two years ending 31 December 2020 and 2019 is 0%.

TEXIM BANK AD

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Continued)

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The amount of nostro accounts with foreign banks as of December 31, 2020 and 2019 includes BGN 382 thousand blocked funds in favor of Master Card Europe at Santander Bank and BGN 191 thousand in favor of JPMorgan Chase Bank (December 31, 2019 : BGN 416 thousand and BGN 192 thousand, respectively).

As of December 31, 2020 and 2019, funds in the amount of BGN 1,666 thousand were blocked on nostro accounts with local banks in favor of Central Cooperative Bank AD as collateral under an open letter of credit and issued bank guarantees (December 31, 2019: BGN 3,065).

8. RECEIVABLES UNDER REPURCHASE AGREEMENTS OF SECURITIES

	As at 31.12.2020	As at 31.12.2019
Receivables from private non-financial entities	23,164	16,280
Receivables from financial entities	8,044	11,184
	<u>31,208</u>	<u>27,464</u>

9. DEBT INSTRUMENTS AT AMORTIZED COST

	As at 31.12.2020	As at 31.12.2019
Bulgarian government securities	5,461	5,524

Debt instruments at amortised cost were acquired in 2019

The value of debt instruments at amortized cost pledged as collateral for budget funds at 31 December 2020 is BGN 5,000 thousand. 31 December 2019 - BGN - 5,000 thousand).

10. NON-CURRENT ASSETS HELD FOR SALE

	As at 31.12.2020	As at 31.12.2019
Balance at the beginning of the year	-	-
Acquisitions during the year	-	599
Disposals during the year	-	(5)
Transferred to assets reported under IAS 40	-	(594)
Transferred to other assets	-	-
Balance at the end of the year	<u>-</u>	<u>-</u>

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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 2019	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
Additions	4,623	3,578		186		690		169
Disposals	(2503)	(2251)	(76)	(174)	(1)	(1)	-	-
Transfers	-	-	65	264	261	(590)	-	-
Revaluation	176	176	-	-	-	-	-	-
Transferred from / to investment properties	257	600	-	-	-	(343)	-	-
31 December 2020	34,744	16,312	4,441	1,538	3,082	913	4,032	4,426
Accumulated depreciation								
1 January 2019	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
Charged during the year	3,773	1,971	394	284	293	-	449	382
Disposals	(1874)	(1657)	(77)	(139)	(1)	-	-	-
Charged during the year, net	1,899	314	317	145	292	-	449	382
31 December 2020	11,927	2,066	3,550	930	1,266	-	1,694	2,421
Carrying amount as at 31 December 2019	22,163	12,457	1,219	477	1,848	1,157	2,787	2,218
Carrying amount as at 31 December 2020	22,817	14,246	891	608	1,816	913	2,338	2,005

TEXIM BANK AD

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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Profit from sale of property, plant and equipment

	As at 31.12.2020	As at 31.12.2019
Sales value	957	42
Depreciated carrying amount	(586)	(34)
Profit from sale of property, plant and equipment	371	8

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 book value			
Balance as at 1 January 2020	5,882	106	5,988
Newly acquired assets	1,611	186	1,797
Depreciated assets	(1,475)	(45)	(1,520)
Effect of changes in leasing conditions and expectations for the lease term	1,967	-	1,967
Balance as at 31 December 2020	7,985	247	8,232
Depreciation and impairment			
Balance as at 1 January 2020	1,720	21	1,741
Depreciation on written off	(1,475)	(10)	(1485)
Depreciation	1,771	49	1,820
Balance as at 31 December 2020	2,016	60	2,076
Book value as of January 1, 2020	4,162	85	4,247
Book value as of December 31, 2020	5,969	187	6,156

	Buildings	Vehicles	Total right-of-use assets
Gross book value			
Balance as of January 1, 2019	-	-	-
Newly acquired assets	273	106	379
Initial effect of IFRS 16	5,609	-	5,609
Balance as of December 31, 2019	5,882	106	5,988
Depreciation and impairment			
Balance as of January 1, 2019	-	-	-
Depreciation	(1,720)	(21)	(1,741)
Balance as of December 31, 2019	(1,720)	(21)	(1,741)
Book value as of December 31, 2019	4,162	85	4,247

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

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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 2020 and 2019 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 31.12.2020	As at 31.12.2019
Balance on January 1	13,752	9,235
Transfers from property, plant and equipment	343	-
Sale	(2,650)	(391)
Transfers from non - current assets held for sale	-	594
Transfers from other assets	-	3,671
Transfers in real estate, machinery and equipment	(600)	-
Change in fair value	537	643
Balance as of December 31	<u>11,382</u>	<u>13,752</u>

The profit from the sale of investment properties is formed as follows:

	As at 31.12.2020	As at 31.12.2019
Sales value	3,363	405
Depreciated carrying amount	(2,650)	(391)
Profit from sale of investment properties	713	14

Investment properties are valued at revalued amount. In the fair value hierarchy, investment property is classified at level 3 using valuation techniques to determine fair value as disclosed for land and buildings (Note 11).

	As at 31.12.2020	As at 31.12.2019
Land	3,946	5,630
Commercial buildings	2,951	4,157
Administrative buildings	3,623	3,134
Industrial buildings	862	831
	<u>11,382</u>	<u>13,752</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 2020 and 2019, the Bank reported rental income from investment properties in the amount of BGN 72 thousand and BGN 103 thousand, respectively, which are reported as other operating income.

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In 2020 and 2019, the costs for taxes, repairs and maintenance of investment properties are BGN 144 thousand and BGN 58 thousand.

13. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries as of 31 December 2020 and 2019, are as follows:

COMPANY	SHARE		COST	
	As at 31.12.2020	As at 31.12.2019	As at 31.12.2020	As at 31.12.2019
UD „Texim Asset Management“ AD	100%	100%	450	450
„Texim Projects“ EOOD	100%	100%	1	1
TOTAL			451	451

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

14. OTHER ASSETS

	As at 31.12.2020	As at 31.12.2019
Collateral on non-performing loans	304	304
Prepaid expenses	551	642
Advance payments	-	3
Inventory	91	73
Other	10,177	5,265
TOTAL	11,123	6,287

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.

15. DEPOSITS AND LOANS FROM CREDIT INSTITUTIONS

	As at 31.12.2020	As at 31.12.2019
Term deposits from local banks in foreign currency	1,630	1,622
TOTAL DEPOSITS FROM CREDIT INSTITUTIONS	1,630	1,622

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

	2020 Loans from local banks in BGN	2019 Loans from local banks in BGN
1 January 2020	-	23,000
Cash flows:		
Payments	-	(58,000)
Proceeds	-	35,000
31 December 2020	-	-

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

	As at 31.12.2020	As at 31.12.2019
Deposits from clients other than credit institutions	391,711	317,646
Lease liabilities	5,385	3,305
TOTAL	397,096	320,951

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

	As at 31 December 2020			As at 31 December 2019		
	BGN	Foreign currency	Total	BGN	Foreign currency	Total
RESIDENTS	258 038	126 611	384 649	212,092	99,659	311,751
State budget	22 614	-	22 614	13,835	-	13,835
Financial	13 562	6 382	19 944	8,962	6,397	15,359
Households and individuals	97 968	78 739	176 707	96,289	57,633	153,922
Services	40 866	14 555	55 421	34,499	10,973	45,472
Manufacturing	3 338	2 703	6 041	6,033	2,081	8,114
Trade	35 537	15 739	51 276	31,110	15,157	46,267
Transport	1 966	6 040	8 006	10,973	5,234	16,207
Construction	39 062	1 988	41 050	6,908	1,524	8,432
Agriculture	3 125	465	3 590	3,483	660	4,143
NON-RESIDENTS	1 095	5 967	7 062	500	5,395	5,895
	259 133	132 578	391 711	212,592	105,054	317,646

The average interest rates on the different types of deposits for the year ended 31 December 2020 are as follows:

	BGN	USD	EUR
Current accounts	0,05	0,00	0,13
Term deposits	0,26	0,14	0,41
Savings deposits	0,07	0,02	0,10

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

As of 31 December 2020, the Bank has no loans from customers other than credit institutions.

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For the year ended 31 December 2020 (Continued)

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16.2 LEASE OBLIGATIONS

	As at 31.12.2020	As at 31.12.2019
Lease obligations - non-current portion	3,754	2,233
Lease obligations - current portion	1,631	1,072
TOTAL	5,385	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 an asset with a right of use and a lease liability. Variable lease payments that do not depend on an index or variable interest 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 assets with the right of use in a consistent manner in its property, plant and equipment (see Note 11).

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

The future minimum lease payments as of 31 December 2020 are as follows:

Minimum lease payments due

	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
31 December 2020							
Lease payments	1,793	1,654	1,440	365	248	295	5,795
Financial expenses	(162)	(109)	(65)	(37)	(22)	(15)	(410)
Net present value	1,631	1,545	1,375	328	226	280	5,385

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

Minimum lease payments due

	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
31 December 2020							
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

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

The expenses for 2020, related to payments, which are not included in the assessment of the obligations under leasing contracts, amount to BGN 86 thousand.

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Interest expenses under lease agreements included in financial expenses for the year ended 31 December 2020 are BGN 233 thousand (2019: BGN 287 thousand).

The total outgoing cash flow for leasing contracts for the year ended 31 December 2020 is BGN 1,803 thousand.

In 2020, as a result of Covid-19, the Bank received discounts on rent in the total amount of BGN 23 thousand, which are presented in "Other income" because the Bank has applied the amendments to IFRS 16 concerning the reduction of rents, associated with Covid-19.

Additional information on the types of usable assets is provided in Note 11.

16.3 DEBT SECURITIES ISSUED

In 2020 the Bank issues 22,000 ordinary, dematerialized, registered, interest-bearing, freely transferable, unsecured, convertible corporate bonds with a single nominal value of BGN 1,000, with a total amount of BGN 22,000,000, with a maturity of the bond loan of 7 years and a fixed annual interest rate of 2.2%). By a decision of the BNB Management Board dated 29.09.2020, Texim Bank AD received approval from the BNB to include in its tier 2 capital the amount raised from the issue of convertible corporate bonds in the amount of BGN 22,000 thousand.

17. TAXES

17.1 Tax liabilities

	As at 31.12.2020	As at 31.12.2019
Current tax liabilities in accordance with corporate income tax and personal income tax legislation in Bulgaria	75	76
Deferred tax liabilities	231	213
Total tax liabilities	<u>306</u>	<u>289</u>

During the period, deferred taxes in the amount of BGN 18 thousand arose. as a result of reported revaluation of non-financial assets (2019 BGN 95 thousand)

17.2 Income tax expense

Current income tax expense represents taxes due under Bulgarian law at the statutory tax rate of 10% for 2020 and 2019. 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 31.12.2020	For the year ended 31.12.2019
Profit before tax	154	298
Taxes at applicable tax rates	15	30
Tax effect of deferred tax liabilities derecognised	-	-
Effect from transferred tax losses	(15)	(30)
INCOME TAX EXPENSE	<u>-</u>	<u>-</u>
EFFECTIVE TAX RATE	-	-

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For the year ended 31 December 2020 (Continued)

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18. OTHER LIABILITIES

	As at 31.12.2020	As at 31.12.2019
Outgoing bank transfers	286	369
Unused paid leave and other liabilities to personnel	62	206
Other liabilities	2,077	1,377
TOTAL	2,425	1,952

Outgoing bank transfers are liabilities for transfers in Bulgarian leva ordered by customers on the last day of 2020 and 2019, respectively, with a value date for performing the transfer within two working days. These transfers were made on the first business day of 2021 and 2020, respectively.

19. PROVISIONS

	As at 31.12.2020	As at 31.12.2019
Opening balance of provisions	238	222
Accrued provisions for litigation	58	-
Paid amounts	(58)	-
Reintegrated provisions for litigation	(165)	-
Accrued provisions for commitments and guarantees	109	-
Reintegrated provisions for commitments and guarantees	(114)	16
	68	238

The Bank's management has reviewed the legal and constructive liabilities for which cash outflows are likely to arise and has determined that there are no grounds for recognizing a provision in an unsettled court case and accrued provisions in the amount of BGN 165 thousand have been reintegrated. (December 31, 2019: 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 31.12.2020	As at 31.12.2019
	Number of shares	Number of shares
Share capital	27,995	27,995

Shareholders who hold as of 31.12.2020, directly and indirectly 5 or more than 5 percent of the voting rights in the General Meeting of Texim Bank AD are:

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Name	UIC	% of voting rights as at 31.12.2020	% of voting rights as at 31.12.2019
1 „Web Finance Holding” AD	103765841	18,88%	18,88%
2 „Sia Holding” AD	112100237	8,93%	8,93%
3 POK „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 31.12.2020 the companies "Datamax" AD, "Datamax System Holding" AD, "Etrade" AD, in their capacity of related parties, together hold 14.81% of the voting rights in the General Meeting of Shareholders of "Texim Bank" AD.

20.2 Reserves

Reserves include statutory reserves, revaluation reserves and other reserves.

	As at 31.12.2020	As at 31.12.2019
Statutory reserves	2,449	2,150
Revaluation reserves	7,280	7,609
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.

Revaluation reserves include revaluations of tangible fixed assets and financial assets measured at fair value through other comprehensive income.

	As at 31.12.2020	As at 31.12.2019
Revaluation reserve of non-current assets	6,539	6,381
Revaluation reserve of financial assets at fair value through other comprehensive income	741	1,228
Revaluation reserve total	7,280	7,609

Changes in the revaluation reserve of financial assets at fair value through other comprehensive income are as follows:

	As at 31.12.2020	As at 31.12.2019
Balance as at 1 January	1,228	538
Net change in the fair value of debt instruments carried at fair value through other comprehensive income	696	516
Net value reclassified to the income statement for the sale of debt instruments at fair value through other comprehensive income	(339)	(250)
Net change in the fair value of equity instruments carried at fair value through other comprehensive income	37	424
Net value reclassified to retained earnings from previous years from reclassified equity instruments	(881)	
Balance as at 31 December	741	1,228

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For the year ended 31 December 2020 (Continued)

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21. INTEREST INCOME AND INTEREST EXPENSE

21.1 Interest income

	For the year ended 31.12.2020	For the year ended 31.12.2019
Operations in BGN	8,790	8,643
Interest on financial assets at fair value through other comprehensive income	518	629
Interest from loans and receivables	6,212	6,137
Interest on loans and receivables under repurchase agreements	1,822	1,725
Interest on financial instruments at amortized cost	113	112
Interest on other assets	116	16
Interest on other liabilities	9	24
Operations in foreign currency	1,767	2,342
Interest on financial assets at fair value through other comprehensive income	804	892
Interest from loans and receivables	963	1,442
Interest on other liabilities		8
TOTAL INTEREST INCOME	10,557	10,985

21.2 Interest expense

	For the year ended 31.12.2020	For the year ended 31.12.2019
Operations in BGN	(1,129)	(1,049)
Interest on deposits from credit institutions		(29)
Interest on deposits from non - credit institutions	(425)	(456)
Interest on debt securities issued	(214)	-
Interest on lease agreements	(233)	(294)
Interest on financial assets at fair value through other comprehensive income	(127)	(185)
Interest on financial instruments at amortized cost	(73)	(72)
Interest on other assets	(57)	(13)
Foreign currency transactions	(598)	(435)
Interest on deposits other than credit institutions	(357)	(315)
Interest on financial assets at fair value through other comprehensive income	(71)	(67)
Interest on other assets	(170)	(53)
TOTAL INTEREST EXPENSES	(1,727)	(1,484)

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22. FEES AND COMMISSIONS INCOME, NET

	For the year ended 31.12.2020	For the year ended 31.12.2019
Fees and commissions income	4,291	4,656
In BGN	3,556	4,007
Loans management	476	88
Off-balance sheet commitments	39	48
Securities management	35	16
Borrowed funds	2,031	2,904
Cash operations	492	434
Other	483	517
In foreign currency	735	649
Loans management	51	4
Borrowed funds	530	513
Other	154	132
Fees and commissions expenses	(733)	(947)
In BGN	(416)	(665)
In foreign currency	(317)	(282)
FEES AND COMMISSIONS INCOME, NET	3,558	3,709

Due to the reduced economic activity as a result of Covid-19 and the decline in the general interest rates, Texim Bank AD has introduced changes in the Bank's tariff in order to preserve the revenues from fees and commissions.

23. NET GAINS ON OPERATIONS WITH FINANCIAL ASSETS

	For the year ended 31.12.2020	For the year ended 31.12.2019
Net gains on revaluation of financial assets at fair value through profit or loss on initial recognition	1,150	1,357
Net foreign exchange gains	422	381
Net gains on financial asset transactions at fair value through profit or loss on initial recognition	1,572	1,738
Net gains on financial assets at fair value through profit or loss on initial recognition	236	380
Net gains on revaluation of financial assets required to be measured at fair value through profit or loss	1,808	2,118
Net gains on operations with financial assets at fair value through other comprehensive income	324	119
Net gains on revaluation of financial assets at fair value through other comprehensive income	339	250
Net gains on financial assets at fair value through other comprehensive income	663	369
	2,471	2,487

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	For the year ended 31.12.2020	For the year ended 31.12.2019
Net revaluation gains and financial asset transactions measured at fair value through profit or loss on initial recognition		
Shares and stocks	1,150	1,357
Net income from currency trading	422	381
	<u>1,572</u>	<u>1,738</u>

In 2020 and 2019, 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 31.12.2020	For the year ended 31.12.2019
Government bonds	370	54
Corporate bonds	293	315
	<u>663</u>	<u>369</u>

24. NET GAINS FROM OPERATIONS WITH ASSETS AVAILABLE FOR SALE

	For the year ended 31.12.2020	For the year ended 31.12.2019
Profit from sale of real estate	-	1
	<u>-</u>	<u>1</u>

25. OTHER OPERATING EXPENSES, NET

In 2020 and 2019 the Bank reported other operating income in the amount of BGN 408 thousand and BGN 502 thousand, respectively. The main part of these income consists of rental income and sale of commemorative coins.

In 2020 and 2019 the Bank reported other operating expenses in the amount of BGN 2,044 thousand and BGN 2,047 thousand, respectively.

26. ADMINISTRATIVE EXPENSES

	For the year ended 31.12.2020	For the year ended 31.12.2019
Personnel costs	7,116	7,021
Materials, rents, consulting and other hired services	4,009	4,836
Taxes, fees, business trips, trainings, etc.	287	367
TOTAL	<u>11,412</u>	<u>12,224</u>

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27. NET EXPENSES FOR IMPAIRMENT AND UNCOLLECTABILITY

In 2020 the Bank reported net income from reversal of impairment for uncollectibility on loans and receivables from customers and debt securities in the total amount of BGN 86 thousand (2019: net income from impairment on loans BGN 489 thousand).

The movement of impairments for losses and uncollectibility of loans and receivables to customers is as follows:

	Loans and receivables from customers
BALANCE AS OF JANUARY 1, 2019	<u>3,029</u>
Accrued impairments for the period	1,275
Accrued impairment for unrecognized interest	62
Reintegrated impairments for the period	(1,726)
Loans written off at the expense of provisions	(11)
BALANCE AS OF DECEMBER 31, 2019	<u>2,629</u>
Accrued impairments for the period	950
Accrued impairment for unrecognized interest	72
Reintegrated impairments for the period	(1,040)
Loans written off at the expense of provisions	(94)
BALANCE AS OF 31 DECEMBER 2020	<u>2,517</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	For the year ended
	31.12.2020	31.12.2019
Net profit after tax (in BGN thousand)	154	298
Weighted average number of shares	<u>27,995</u>	<u>27,995</u>
EARNINGS PER SHARE (IN BGN)	<u>0,006</u>	<u>0,011</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 2020 and 2019, 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.

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29. RELATED PARTIES

As of 31 December 2020 and 2019, the Bank has receivables, payables and contingent liabilities from related parties as follows:

Related parties and balances	Balance as at 31.12.2020	Balance as at 31.12.2019
Subsidiaries		
Deposits received	189	280
Other receivables	4	-
Key management personnel		
Loans granted	256	243
Deposits received	926	791

The income and expenses realized by the Bank in 2020 and 2019 from transactions with related parties are as follows:

Related parties and types of transactions	For the year ended 31.12.2020	For the year ended 31.12.2019
Key management personnel		
Interest income	11	11
Interest expense	1	2
Fee income	2	2
Subsidiaries		
Revenue from services	47	46
Tax revenue	1	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 in 2020, amounts to a total of BGN 348 thousand (2019: BGN 436 thousand).

The remuneration of the members of the Supervisory Board paid in 2020 is total BGN 270 thousand (2019: BGN 256 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.

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

The effects of the Covid-19 pandemic did not lead to significant changes in estimates, changes in expected loss estimation (ECL) models other than changes in the risk parameters of the provisioning model, and did not lead to a change in classification or business models. In 2020. The Bank's management expects information on the measures taken and guidelines issued by the European Banking Authority (EBA) and the BNB in its capacity as a national regulator, on their future actions and adjusted regulations in the banking sector as a whole.

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 counterparties with similar 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

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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 31.12.2020	As at 31.12.2019
Granted resources and deposits from banks	62,645	21,149
Financial assets at fair value through profit or loss	10,003	7,757
Financial assets held for trading	19,551	17,745
Equity instruments at fair value through other comprehensive income	266	1,617
Debt instruments at fair value through other comprehensive income	80,535	34,754
Debt instruments at amortised cost	5,463	5,537
Loans and advances	159,088	150,809
Receivables under repurchase agreements	31,208	27,464
Off-balance sheet positions:	27,849	17,694
incl. credit commitments	17,815	11,562
incl. bank guarantees	10,034	6,132
TOTAL CREDIT EXPOSURE	396,608	284,526

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 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

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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.

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;

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- 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);
- 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;

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The table below shows the balance sheet and off-balance sheet positions of the Bank on financial instruments and customer risk groups as at 31.12.2019 and 31.12.2020.

As at 31.12.2020

Loans and advances	Gross carrying amount	Impairment
Corporate loans		
A	34,869	(22)
B	69,913	(125)
C	25,823	(19)
D	9,503	(3)
E	1,190	(269)
Without rating	2,192	(149)
Total corporate loans	143,490	(587)
Retail loans	46,806	(1,930)
Total loans and advances	190,296	(2,517)
Debt and equity securities	Gross carrying amount	Impairment
A	76,479	(83)
B	18,095	(2)
C	6,618	(71)
Without rating	14 626	(3)
Total securities	115,818	(159)

Off-balance sheet positions	Issued bank guarantees	Unused credit commitments	Provisions
A			
B	4,269	2,227	21
C	4,836	9,060	24
D	861	400	5
E	-	17	-
Without rating	-	-	-
Retail loans	68	20	-
Total off-balance sheet positions	-	6,091	17
	10,034	17,815	67

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)

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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	-	-	-
Without rating	-	17	-
Retail loans	35	5,707	26
Total off-balance sheet positions	6,132	11,562	73

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.

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

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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

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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 and credit losses. The Bank has not made any changes to the valuation techniques or material assumptions made during the reporting period.

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 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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2020

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)	(261)	261
Loss given default (LGD)	(31)	31

2020

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	+0,7%
Macrofactors, incl. unemployment impacting on the loan portfolio of individuals	(98)

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)

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	2020	2019
	BGN '000	BGN '000
Consentration by sector		
Central banks	40,435	49,345
Bulgarian retail banks	57,257	13,871
Foreign retail banks	5,388	7,278
Total	<u>103,080</u>	<u>70,494</u>

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Granted credits and advances to clients at amortised cost	2020 BGN '000	2019 BGN '000.
Consentration by sector *		
Retail banking:	46,806	46,206
Mortgage	17,802	16,345
Unsecured lending	29,004	29,861
Corporate:	112,282	104,603
Consumer goods and services linked to the economic cycle	15,136	17,079
Basic consumer goods	10,746	6,563
Energy	160	224
Finance	30,063	33,097
Healthcare	5	115
Industry	29,407	25,676
Information technology	-	61
Raw materials	7,976	7,528
Real estate	18,776	14,226
Public services / utilities and others	13	34
Total	159,088	150,809

* according to the sectoral nomenclature of the GICS

Concentration by regions	2020 BGN '000	2019 BGN '000
Europe	159,088	150,790
Bulgaria	159,088	150,790
Other countries:	-	19
Austria	-	2
China	-	17
Total	159,088	150,809

Loan commitments	2020 BGN '000	2019 BGN '000
Concentration by sector		
Retail banking:	6,091	5,707
Mortgage	400	183
Unsecured lending	5,691	5,524
Corporate:	11,724	5,855
Consumer goods and services linked to the economic cycle	756	997
Basic consumer goods	926	1,021
Energy	-	-
Finance	303	424
Healthcare	698	778
Industry	8,208	869
Information technology	610	610
Raw materials	150	1,073
Real estate	1	11
Public services / utilities and others	72	72
Total	17,815	11,562

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Concentration by regions

Europe	17,766	11,531
Bulgaria	17,766	11,531
Other countries:	49	31
Austria	10	8
China	20	3
Russia	19	20
Others	-	-
Total	17,815	11,562

Contracts for financial guarantees

	2020	2019
	BGN '000	BGN '000
Concentrated by sector		
Retail banking:	-	35
Mortgage	-	-
Unsecured lending	-	35
Corporate:	10,034	6,097
Consumer goods and services linked to the economic cycle	1,906	1,298
Basic consumer goods	39	276
Energy	5	5
Finance	1,247	1,247
Healthcare	280	151
Industry	3,242	3,024
Information technology	264	50
Raw materials	3,025	25
Real estate	26	21
Public services / utilities and others	-	-
Total	10,034	6,132

Concentrated by regions

Europe	10,034	6,132
Bulgaria	10,034	6,132
Other countries:	-	-
Total	10,034	6,132

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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2020

Loans and advances granted	2020			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		Phase 3 Expected credit losses for the whole period BGN '000
Corporate loans					
A		34,869	-	-	34,869
B		67,911	2,002	-	69,913
C		23,561	-	2,262	25,823
D		8,284	1,208	11	9,503
E		-	-	1,190	1,190
Without rating		2,030	-	162	2,192
Total corporate loans		136,655	3,210	3,625	143,490
Retail exposures		43,375	347	3,084	46,806
Total loans and advances		180,030	3,557	6,709	190,296
Loss on impairment		(313)	(53)	(2,151)	(2,517)
Net balance loans and advances		179,717	3,504	4,558	187,779

Bank guarantees and outstanding credit commitments issued	2020			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		Phase 3 Expected credit losses for the whole period BGN '000
Corporate loans					
A		6,496	-	-	6,496
B		13,896	-	-	13,896
C		1,261	-	-	1,261
D		14	3	-	17
E		-	-	-	-
Without rating		88	-	-	88
Total corporate loans		21,755	3	-	21,758
Retail exposures		6,027	17	47	6,091
Total off-balance-sheet positions		27,782	20	47	27,849
Provision		66	1	-	67

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		Phase 3 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

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Bank guarantees and outstanding credit commitments issued	2019			Total BGN '000
	12- month expected credit losses	Phase 2 Expected credit losses for the whole period	Phase 3 Expected credit losses for the whole period	
	BGN '000	BGN '000	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

The Bank's investments in debt instruments, valued at amortized cost in the amount of BGN 5,461 thousand are classified in Phase 1, and the impairment on them is BGN 2 thousand as of December 31, 2020.

The following table summarizes the impairment loss at the end of the year by type of exposure.

Loss from impairment by type of asset	2020	2019
	BGN '000	BGN '000
Loans and advances to banks at amortized cost	-	-
Loans and advances to customers at amortized cost	2,517	2,629
Investments in debt securities at amortized cost	2	13
Debt instruments at fair value through other comprehensive income	157	144
Credit commitments	53	63
Financial guarantee agreements	14	10
Total	2,743	2,859

The following table presents the movement between phases of the Bank's financial instruments in 2020 and 2019:

2020 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	2,448	26	213	5	484	16
<i>Corporate loans</i>	2,303	-	12	-	-	-
<i>Retail banking</i>	145	26	201	5	484	16
Total	2,448	26	213	5	484	16
Commitments and financial guarantees provided	20	-	-	-	39	2

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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

The tables below analyze the movement of impairment loss over the year by asset type.

2020

Movement of adjustments and provisions for credit losses	Opening balance 31.12.2019	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)	(481)	(691)	745	(46)	-	(473)
Credit institutions	-	(1)	1	-	-	-
Debt securities	(157)	(205)	202	-	-	(160)
Loans and advances	(324)	(485)	542	(46)	-	(313)
<i>Corporate loans</i>	(174)	(222)	235	1	-	(160)
<i>Retail loans</i>	(150)	(263)	307	(47)	-	(153)
Adjustments regarding debt instruments with significant credit risk increase after initial recognition but without credit impairment (Phase 2)	(46)	(113)	80	26	-	(53)
Credit institutions	-	-	-	-	-	-
Loans and advances	(46)	(113)	80	26	-	(53)
<i>Corporate loans</i>	-	-	-	(1)	-	(1)
<i>Retail loans</i>	(46)	(113)	80	27	-	(52)
Adjustments regarding debt instruments with credit impairment (phase 3)	(2,259)	(352)	417	(51)	94	(2,151)
Credit institutions	-	-	-	-	-	-
Loans and advances	(2,259)	(352)	417	(51)	94	(2,151)
<i>Corporate loans</i>	(560)	-	127	(52)	59	(426)
<i>Retail loans</i>	(1,699)	(352)	290	1	35	(1,725)
Total credit loss adjustments	(2,786)	(1,156)	1,242	(71)	94	(2,677)
Commitments and financial guarantees (Phase 1)	72	103	(107)	(1)	-	67
Commitments and financial guarantees (Phase 2)	1	-	(1)	1	-	1
Commitments and financial guarantees (Phase 3)	-	5	(5)	-	-	-
Total provisions on commitments and financial guarantees	73	108	(113)	-	-	68

In 2020 the valuation methodology for calculating expected credit losses has not changed.

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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)
Corporate loans	(123)	(187)	135	1	-	(174)
Retail loans	(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)
Corporate loans	-	-	-	-	-	-
Retail loans	(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)
Corporate loans	(889)	(117)	461	(20)	5	(560)
Retail loans	(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

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:	2020		2019	
	Gross carrying amount BGN'000	Loss from impairment BGN'000	Gross carrying amount BGN'000	Loss from impairment BGN'000
0-29 days	152,179	518	144,258	563
30-59 days	2,362	49	2,460	23
60-89 days	126	23	236	39
90-180 days	752	58	176	66
More than 181 days	3,669	1,869	3,679	1,938
Total	159,088	2,517	150,809	2,629

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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	2020		2019	
	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%	4,247	(3)	2,949	-
51-70%	5,066	-	4,945	(1)
71-90%	7,865	-	7,834	-
91-100%	78	-	327	-
More than 100 %	546	(1)	290	-
Total	17,802	(4)	16,345	(1)

Credit commitments - Mortgage lending	2020		2019	
	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%	400	(2)	85	-
51-70%	-	-	-	-
71-90%	-	-	-	-
91-100%	-	-	98	(1)
More than 100%	-	-	-	-
Total	400	(2)	183	(1)

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Compensation of financial assets and financial liabilities

In 2020 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:

	31.12.2020			
	Phase 1	Phase 2	Phase 3	Total carrying amount
	BGN '000	BGN '000	BGN '000	BGN '000
Private companies	99,334	1,208	3,627	104,169
Households and individuals	43,376	347	3,083	46,806
Financial companies	6,111	2,002	-	8,113
Credit cards	-	-	-	-
TOTAL BOOK VALUE	148,821	3,557	6,710	159,088
Impairment for uncollectability	(313)	(53)	(2 151)	(2 517)
TOTAL CARRYING AMOUNT	148,508	3,504	4,559	156,571

	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

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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 2020 and 2019 is presented in the table below:

	As at 31 December 2020		As at 31 December 2019	
	(BGN '000.)	% from capital base	(BGN '000)	% from capital base
Highest total exposure to the clients' group	53,566	111,66	44,278	126.76
Total amount of the biggest 5 exposures to clients	61,617	128,44	53,021	151.79
Total amount of all big exposures (above 10% from capital base)	88,523	184,53	85,388	244.45

Information on the exposures in the loan portfolio of the Bank, which are secured, is presented in the table below:

	As at 31.12.2020	As at 31.12.2019
Secured with cash and government securities	19,569	29,420
Secured with mortgage	74,518	61,001
Financial insurance	14,639	10,157
Pledge of corporate securities	4,933	4,720
Pledge of movable property	8,731	8,101
Pledge of a commercial enterprise	712	821
Pledge of receivables	2,342	2,369
Secured with warranty	6,286	11,115
Not secured	27,358	23,105
Impairment for uncollectability	(2,517)	(2,629)
Total	156,571	148,180

Business Sector, classification group and delays as at 31 December 2020:

Sector	Amount Group	Number of deals	Debt	including defaults on		Court Receivables	Expected credit loss	Unabsorbed commitments
				Principal	Interest			
Retail	performing	6,048	43,722	24	12	-	205	6,044
	non-performing	942	3,084	147	70	2,400	1,726	47
Total		6,990	46,806	171	82	2,400	1,931	6,091
Corporate	performing	147	108,656	4	1	-	161	11,724
	non-performing	9	3,626	42	21	1,339	425	-
Total		156	112,282	46	22	1,339	586	11,724
Total	Total portfolio	7,146	159,088	217	104	3,739	2,517	17,815

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Business Sector, classification group and delays as at 31 December 2019:

Sector	Amount Group	Number of deals	Debt	including defaults on		Court Receivables	Expected credit loss	Unabsorbed commitments
				Principal	Interest			
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

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.

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.

Quantitative measure of liquidity risk, according to BNB regulations, is the Liquidity Coverage Ratio. The ratio of liquidity coverage as of 31.12.2020 amounts to 291.08% (2019: 433.45%) and significantly exceeds the regulatory requirement of 100%. The Bank monitors additional liquidity indicators, such as the concentration of financing by counterparties and the capacity to generate liquidity by issuers, types of products and by currencies, by interest rates, as well as the renewal of financing.

The Bank maintains a significant volume of highly liquid assets - cash in hand and at the BNB, amounting to BGN 50,767 thousand, which guarantees it a smooth meeting of liquidity needs. Their share as of December 31, 2020 is approximately 10.97% of the total assets of the Bank. As an additional tool for ensuring high liquidity, the Bank uses the resources and advances provided to current accounts of financial institutions. Basically, these are deposits in international and Bulgarian financial institutions with a maturity of up to 7 days, and as of December 31, 2020 those that are not encumbered by a pledge amount to BGN 38,406 thousand and represent 8.30% of total assets. The government-owned government securities that are not blocked amount to BGN 35,052 thousand and represent 7.6% of its assets. By maintaining more than 20% of its assets in liquid assets, the Bank is able to meet all your needs for payments on your financial liabilities.

The allocation of the Bank's financial assets and liabilities as of 31 December 2020, according to their remaining maturity, is as follows:

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2020	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	50,767	-	-	-	50,767
Financial assets at fair value through profit or loss	-	-	28,925	629	29,554
Debt instruments at fair value through other comprehensive income	7	276	2,029	78,066	80,378
Equity instruments at fair value through other comprehensive income	-	-	-	266	266
Placements and deposits with banks	61,053	1,592	-	-	62,645
Loans and receivables from customers	1,865	4,344	33,331	117,031	156,571
Receivables under repurchase agreements for securities	20,597	-	10,611	-	31,208
Debt instruments measured at amortized cost	-	-	-	5,461	5,461
Investments in associates and subsidiaries	-	-	-	451	451
TOTAL FINANCIAL ASSETS	134,289	6,212	74,896	201,904	417,301
FINANCIAL LIABILITIES					
Deposits from credit institutions	1,630	-	-	-	1,630
Loans from banks	-	-	-	-	-
Deposits from clients other than credit institutions	244,120	34,734	71,264	46,978	397,096
Deposits from clients other than credit institutions	-	-	-	22,207	22,207
TOTAL FINANCIAL LIABILITIES	245,750	34,734	71,264	69,185	420,933

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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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:

31.12.2020	Value at risk /VaR (1 day, 99%)/
PORTFOLIO	
Foreign currency portfolio	2
Portfolio of shares held for trading	187
Portfolio of equity instruments at fair value through other comprehensive income	11
Debt securities portfolio measured at fair value through other comprehensive income	1,802

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

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.

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	Value at risk /VaR (1 day, 99%)/	Value at risk /sVaR (1 day, 99%)/ under stress
31.12.2020		
Shares portfolio	198	727
31.12.2019		
Shares portfolio	296	1,155

Impact of the pandemic on the prices of financial instruments

The Covid-19 pandemic has become a major threat to the global economy and financial markets in 2020. Concerns and fears about the spread of the Covid-19 virus and its impact on the global economy have had a negative impact on investor sentiment which in turn led to a sharp decline in prices for financial instruments in major markets. The stress of the financial markets was affected by global uncertainty, which was growing more and more. The business picture has changed on an unprecedented scale in a matter of months, which has posed extremely serious challenges to many industries. The market situation was extremely complex and difficult to predict. The extraordinary circumstances surrounding the pandemic led to a decrease in the fair value of the Bank's securities in March and April 2020. The return to growth was followed by news of the introduction of vaccines, vaccination campaigns and measures taken by individual governments. The market situation at the end of 2020 in terms of prices of market instruments is almost at the level of before the pandemic.

30.4 Currency risk

Currency risk represents 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 the Currency Board Act. The fixed exchange rate is regulated in Art. 29 of the Law on the Bulgarian National Bank (BNBA). At the end of January 2021, a draft amendment to Art. 29 of the Law on the BNB, with the aim of ensuring compliance of the internal regulatory framework with the European regulatory framework governing the administrative process and operational procedures for approval of exchange rates under the terms of the exchange mechanism (ERM II) was filed with the National Assembly. This compliance is a mandatory condition for joining the currency exchange mechanism. According to a Parliamentary Decision, when negotiating the central rate of the lev against the euro, the Minister of Finance and the Governor of the BNB undertake to propose, maintain and vote on a position for a central rate of BGN 1.95583 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 per euro. The Bank's position in euro does not pose a risk to the Bank.

The currency structure of financial assets and liabilities at carrying amount as at 31 December 2020 is as follows:

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	BGN	EUR	Other	Total
FINANCIAL ASSETS				
Cash and balances with central banks	29,788	19,654	1,325	50,767
Financial assets at fair value through profit or loss	28,074	-	1,480	29,554
Debt instruments at fair value through other comprehensive income	35,338	45,040	-	80,378
Equity instruments at fair value through other comprehensive income	166	-	100	266
Placements and deposits with banks	41,231	11,153	10,261	62,645
Loans and receivables from customers	132,000	24,571	-	156,571
Receivables under repurchase agreements for securities	31,208	-	-	31,208
Debt instruments measured at amortised cost	5,461	-	-	5,461
Investments in associates and subsidiaries	451	-	-	451
TOTAL ASSETS	303,717	100,418	13,166	417,301
FINANCIAL LIABILITIES				
Deposits from credit institutions	-	-	1,630	1,630
Loans from banks	-	-	-	-
Deposits from clients other than credit institutions	264,518	121,310	11,268	397,096
Debt securities issued	22,207	-	-	22,207
TOTAL LIABILITIES	286,725	121,310	12,898	420,933
NET EXPOSURE	16,992	(20,892)	268	(3,632)

The currency structure of financial assets and liabilities at carrying amount as at 31 December 2019 is as follows:

	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)

As of 31 December 2020 and 2019, financial assets and liabilities in the "Other currencies" category are predominantly USD and CHF denominated financial assets and liabilities.

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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.

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 2020 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	7	276	2,029	78,066	80,378
Placements and deposits with banks	61,053	1,592	-	-	62,645
Loans and advances to customers*	2,530	148,863	2,734	2,444	156,571
Receivables under repurchase agreements for securities	20,597	-	10,611	-	31,208
Debt instruments at amortised cost	-	-	-	5,461	5,461
TOTAL INTEREST-BEARING ASSETS	84,187	150,731	15,374	85,971	336,263
INTEREST-BEARING LIABILITIES					
Deposits from credit institutions	1,630	-	-	-	1,630
Loans from banks	244,121	34,734	71,264	46,977	397,096
Deposits from clients other than credit institutions	-	-	-	22,207	22,207
TOTAL INTEREST-BEARING LIABILITIES	245,751	34,734	71,264	69,184	420,933
IMBALANCE BETWEEN INTEREST-BEARING ASSETS AND LIABILITIES, NET	(161,564)	115,997	(55,890)	16,787	(84,670)

* 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 December 31, 2020, the effect of applying a stress test for a parallel increase in market interest rates by 100 basis points. on the interest rate imbalance amounts to approximately minus BGN 1,360 thousand.

The imbalance between the Bank's interest-bearing assets and liabilities as of 31 December 2019 is as follows:

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	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 December 31, 2019, the effect of applying a stress test for a parallel increase in market interest rates by 100 basis points, on the interest rate imbalance amounts to approximately minus BGN 2,132 thousand. In accordance with the Guidelines of the European Banking Authority EBA / GL / 2018/02 on interest rate risk management, the Bank measures the interest rate risk of activities outside the trading book in terms of profitability and economic value. In order to maintain the exposure to interest rate risk within acceptable limits, in accordance with the Bank's risk tolerance and in accordance with the EBA Guidelines, the impact on the economic value of equity (EVE) of a sudden parallel change in the yield curve of +/- 200 basis points, as well as the impact of the following interest rate shocks:

- parallel shock of increase;
- parallel shock of decline;
- steep shock (short-term rates are falling, long-term rates are rising);
- flat shock (short-term rates increase, long-term rates decrease);
- shock of rising short-term rates;
- shock of lowering short-term rates.

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.

The spread of Covid-19 led to a change in social life and the way work was organized in many companies. As a result of the pandemic, which has become one of the main sources of operational risk, the Bank has

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introduced a series of measures aimed at protecting, controlling and limiting or avoiding the occurrence of operational events arising from the spread of the infection. The measures taken have a wide range of scope, the main goal is to ensure business continuity and increase the security of banking services. The Bank applies a pass regime, with certain strict requirements for employees and customers. In order to ensure the continuity of the activity, the protection of the health status of the employees is of paramount importance, for the smooth implementation of the banking services and especially the protection of the activities critical for the Bank.

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 total amount of the regulatory equity of Texim Bank AD as of 31.12.2020 is BGN 57,980 thousand, as the core tier 1 capital amounts to BGN 35,980 thousand.

Structure and elements of the own capital as of 31.12.2020 in thousand BGN:

	As at 31.12.2020
Equity	57,980
Accumulated other comprehensive income	6,870
other reserves	2,581
Intangible assets	(2,005)
Deferred tax assets	(231)
Requirements for prudential assessment	(111)
Basic tier 1 capital	<u><u>35,980</u></u>

The capital adequacy ratios of the Bank significantly exceed the normatively required minimum ratios, as their values as of 31.12.2020 are as follows:

- Tier 1 share capital ratio - 14.89%, with a statutory required ratio of 4.5%;
- Tier 1 capital ratio - 14.89%, with a statutory ratio of 6%;
- Total capital adequacy ratio - 24.00%, with a statutory required ratio of 8%.

The total amount of the regulatory capital requirements as of 31.12.2020 is BGN 19,329 thousand, as their structure by types of risk is as follows:

- Capital requirements for credit risk - BGN 17,434 thousand;
- Capital requirements for operational risk - BGN 1,895 thousand.

In accordance with the requirements of Ordinance № 8 of the BNB on Capital Buffers, the Bank maintains a hedge capital buffer of 2.5% of its total risk exposure, a systemic risk buffer of 3% of risk-weighted

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exposures located in the territory of the Republic of Bulgaria. Bulgaria and countercyclical buffer in the amount of 0.5% of the risk-weighted exposures. As of 31 December 2020, their amounts are BGN 6,040 thousand (2019: BGN 5,615 thousand) and BGN 7,082 thousand (2019: BGN 6,535 thousand) and BGN 1,068 thousand, respectively. BGN 1,007 thousand).

The surplus of core tier 1 capital reported by the Bank as of 31 December 2020 amounts to BGN 25,107 thousand (2019: BGN 24,824 thousand) and fully covers the current regulatory requirements for capital buffers.

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:

	<u>2020</u>	<u>2019</u>
Total operating income	16,276	15,550
Financial result before taxation	154	298
Return on assets (%)	0,033	0,082
Number of full-time employees as at 31 December	268	299

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 issued guarantees, undrawn funds on agreed loans and overdrafts.

As at 31 December 2020 and 2019 the Bank has issued guarantees to customers in favor of third parties in the amount of BGN 10,034 thousand and BGN 6,132 thousand, respectively, which are performance guarantees secured by blocked funds with the Bank or other assets of customers.

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The undrawn commitments on agreed loans and overdrafts as of December 31, 2020 and 2019 amount to BGN 17,815 thousand and BGN 11,562 thousand, respectively.

As of December 31, 2020 and the date of approval of these separate financial statements, 2 lawsuits have been filed against the Bank (2019: 2 lawsuits).

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:

- On March 16, 2021, an increase in the capital of Texim Projects EOOD by BGN 500 thousand was entered in the Commercial Register.
- Pursuant to a decision of the Management Board of Texim Bank AD, objectified in Minutes № 18/11.03.2021, approved by the Supervisory Board of the Bank, with Minutes № 16/11.03.2021 on 18.03.2021 a new subsidiary of the Bank has been registered with the Commercial Register and the register of non-profit organizations at the Registry Agency. The newly registered company is named Texim Project Company EOOD, UIC 206439173, with a capital of BGN 1,000, which is 100% owned by Texim Bank AD, with subject of activity: provision of all services, including but not limited to provision, maintenance and management of IT resources, consulting services related to: participation in company analysis projects, development of business strategies, strategic transactions and management, human resources management, corporate financing, etc., marketing activities, sales representation and mediation, as well as any other activities not prohibited by law.
- By Decision of the Council of Ministers №72 of 26 January 2021, the term of the extraordinary epidemic situation in Bulgaria was extended until 30 April 2021 (see note 2). In view of the actions taken by various governments, incl. Bulgarian, dynamic measures to curb some businesses and the resulting changes that directly affect the development of economic sectors in Bulgaria, the Bank's management is unable to assess the continuing impact of the Covid-19 coronavirus pandemic on its future financial condition and the results of the Bank's activities, but considers that the impact could lead to volatility of market and price risk associated with the Bank's financial assets and may have a negative effect on the activities of borrowers and the results of the Bank's activities. The expectations of the management are that the negative effects will gradually subside in 2021, as the economic activity is expected to be positively affected by the measures and direct aids for the affected companies and individuals in Bulgaria. To the extent that these measures are supplemented and expanded on a daily basis, the Bank's management is unable to assess the final effect on economic activity, which also depends on the currently unknown duration of the quarantine restrictions imposed. As the Bank's liquid assets exceed multiple times the regulatory requirements and the Bank's liquidity buffers are currently unaffected, management does not expect to depend on funding affected by the coronavirus epidemic. The Bank continues to apply measures for physical protection of bank staff exposed to a direct risk of infection in bank branches, observing the relevant instructions of the authorities - supply of personal protective equipment, limiting the accumulation of employees indoors, in bank branches. a minimum number of clients is allowed, observing a distance of 2 m. from each other, disinfection of bank premises at least four times a day, etc. The Bank applies a schedule for remote work of employees in the "home office" mode, which ensures the provision and continuity of business processes during the emergency. The Bank's management will continue to monitor the potential impact and will take all possible measures to mitigate any potential effects.