PROCREDIT BANK (BULGARIA) EAD
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020

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

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Independent Auditors' Report

To the sole shareholder of ProCredit Bank (Bulgaria) EAD

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of ProCredit Bank (Bulgaria) EAD (the Bank) and its subsidiaries (together the "Group") as set out on pages 1 to 72, which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

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

Key Audit Matters

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

We have determined the following key audit matter:

Expected credit losses ("ECL") related to loans and advances to customers

As at 31 December 2020, the consolidated financial statements include:

- Gross loans and advances to customers of BGN 2,148,794 thousand (31 December 2019: BGN 1,845,274 thousand) and ECL allowance of BGN 39,046 thousand (31 December 2019 ECL allowance: BGN 35,192 thousand), as presented in note 17 to the consolidated financial statements.
- Impairment charge/ (reversal of impairment) for credit losses recognized in the income statement of BGN 5,811 thousand (2019: BGN (464) thousand), as presented in note 7 to the consolidated financial statements.

Also refer to the following notes to the consolidated financial statements:

- 3 g Loss allowance
- 4 c Credit risk

Key audit matter	*How this key audit matter was addressed in our audit*
As described in the notes to the consolidated financial statements, the expected credit losses have been determined in accordance with the Group's accounting policies based on the requirements of IFRS 9 Financial Instruments ("IFRS 9"). As required by IFRS 9, the Group estimates the expected credit losses considering a stage allocation of the loan exposures. We focused on this area because of the magnitude of the related balances as well as the complex accounting requirements of IFRS 9 including assumptions made to assess and measure the ECL (e.g. macro-economic inputs, ECL risk modelling) which require significant judgement to determine the expected credit losses. The Management Board is required to make judgements as to whether there is any significant increase in credit risk since initial recognition or any objective evidence of impairment, based on the assessment of the borrower's debt service and probability of default, and as to the future cash flows expected from the borrower.	Our audit procedures performed where applicable with the assistance of our financial risk management specialists, included among others: — Evaluating the appropriateness of the accounting policies and impairment methodology based on the requirements of the relevant accounting standard, our business understanding and industry practice. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors; — Making relevant inquiries of the Bank's risk management, internal audit and information technology (IT) personnel in order to obtain an understanding of the ECL calculation process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Bank's IT control environment for access and program change, assisted by our own Information Risk Management specialists;

For stage 1 and stage 2, as well as stage 3 exposures not exceeding specific thresholds set as per the Bank's "Standard for Impairment of Loans and Advances to Customers", the expected credit losses are determined based on statistical models using the Bank's historical data and also forward-looking information (e.g. gross domestic product growth) and macroeconomic scenarios, taking into account similar credit risk characteristics. The Management Board's key assumptions in this area are the probability of borrower's default and the assessment of the amount non-recoverable from the borrower in the event of a default ("loss given default"), considering as well the impact of COVID-19 and related moratorium measures (such as payment deferrals) on the borrower behaviours, unlikeliness to pay and underlying significant increase in credit risk.

For Stage 3 exposures in excess of specific thresholds set as per the Bank's "Assessment of individually significant credit expositions", expected credit losses are determined on an individual basis by means of a discounted cash flows analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the expected proceeds from the sale of the related collateral and minimum period for collateral disposal.

In the wake of the above factors, coupled with the significantly higher estimation uncertainty stemming from the impact of the COVID-19 global pandemic on multiple sectors of the economy, we considered expected credit losses to be associated with a significant risk of material misstatement in the consolidated financial statements.

Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.

— Assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the appropriateness of the classification of exposures into performing and impaired, calculation of days past due, stage allocation and calculation of the ECL;

— For a sample of loans and advances to customers, critically assessing, by reference to the underlying documentation (updated financial indicators, repayment pattern, default events, forborne status) and through inquiry with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2020;

— For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation and collateral values and, where relevant, with the assistance from our own valuation specialists;

— Obtaining the relevant macroeconomic forecasts of the Bank and critically assessing the Bank's assessment of the forward-looking information and macroeconomic scenarios used in the calculation of the ECL. Independently checking the information by means of comparing factors used by the Bank to publicly available information;

— Recalculating the probability of default and loss given default for the Bank's portfolios, including testing the completeness and accuracy of underlying historical data used in the Bank's process of calculating the above parameters;

— Recalculating the expected credit losses as of 31 December 2020 based on the Bank's ECL models;

— Examining whether the Bank's ECL disclosures in the consolidated financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2019 were audited by Baker Tilly Klitou and Partners OOD and PricewaterhouseCoopers Audit OOD who expressed an unqualified opinion on those financial statements on 15 April 2020.

Information Other than the Consolidated Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the consolidated annual activity report and the consolidated corporate governance declaration, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditors' report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the consolidated annual activity report and the consolidated corporate governance declaration, we have also performed the procedures added to those required under ISAs in accordance with the New and enhanced auditor's reports and auditor's communication Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in the applicable in Bulgaria Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.

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

Based on the procedures performed, our opinion is that:

- The information included in the consolidated annual activity report for the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
- The consolidated annual activity report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- The consolidated corporate governance declaration for the financial year for which the consolidated financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8, where applicable, of the Public Offering of Securities Act.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

We are jointly and severally responsible for performing our audit and for our audit opinion as per the requirements of the Independent Financial Audit Act, applicable in Bulgaria. When accepting and performing the joint audit engagement, in relation to which we are reporting, we are also directed by the Guidelines for performing joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and by the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on Other Legal and Regulatory Requirements

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

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

- KPMG Audit OOD and Baker Tilly Klitou and Partners OOD were appointed as statutory auditors of the consolidated financial statements of the Group for the year ended 31 December 2020 by the extraordinary session of the sole owner of the capital held on 4 December 2020 for a period of one year. The audit engagement was accepted by a Joint Audit Engagement Letter dated 5 December 2020.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2020 represents first uninterrupted statutory audit engagement for that entity carried out by KPMG Audit OOD and fourth total uninterrupted statutory audit engagement for that entity carried out by Baker Tilly Klitou and Partners 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 we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Group.

Sofia, 26 April 2021

For KPMG Audit OOD:

Ivan Andonov
Authorised representative

Sevdalina Dimova
Registered auditor, responsible for the audit

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria

Одиторско дружество София Рег. № 045 КПМГ Одит ООД

For Baker Tilly Klitou and Partners OOD:

Spyridon Gkrouits
Authorised representative

Galina Lokmadjieva
Registered auditor, responsible for the audit

5 Stara Planina Str., 5th floor
Sofia 1000, Bulgaria

Одиторско дружество София Рег. № 129 Бейкър Тили Клиту и Партньори ООД

Consolidated Statement of Profit or Loss

(all amounts expressed in thousands of BGN)	**Notes**	**Year ended 31 December**	
		2020	**2019**
Interest income calculated using the effective interest rate method	6	65,241	60,946
Interest and similar expenses	6	(5,269)	(6,645)
Net interest income		59,972	54,301
(Loss allowance)/Reversal of loss allowance	7	(5,811)	464
Net interest income after loss allowances		54,161	54,765
Fee and commission income	8	26,447	28,319
Fee and commission expenses	8	(2,869)	(2,974)
Net fee and commission income		23,578	25,345
Result from foreign exchange transactions	9	8,943	8,823
Other income	10a	1,870	1,517
Other expenses	10b	(261)	(658)
Personnel expenses	11	(19,790)	(18,429)
Administrative expenses	12	(30,598)	(30,950)
Operating expenses		(50,388)	(49,379)
Profit before tax		37,903	40,413
Income tax expense	13	(3,995)	(4,211)
Profit for the year		33,908	36,202

These consolidated financial statements on pages 1 to 72 were approved by the Management Board and signed on its behalf by:

Reni Peycheva
Executive Director and
Member of the Management Board
22 April 2021

Ivan Dachev
Executive Director and
Member of the Management Board

Initialled for identification purposes in reference to the auditors' report:

For KPMG Audit OOD

Sevdalina Dimova
Registered Auditor responsible for the audit

Ivan Andonov
Authorised representative
For KPMG Audit OOD

For Baker Tilly Klitou and Partners OOD

Galina Lokmadjieva
Registered Auditor responsible for the audit

Spyridon Giourtis
Authorised representative
For Baker Tilly Klitou and Partners OOD

The notes set out on pages 6 to 72 form an integral part of these consolidated financial statements.

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

Consolidated Statement of Other Comprehensive Income

(all amounts expressed in thousands of BGN)	Notes	Year ended 31 December	
		2020	2019
Profit for the year		33,908	36,202
Items that will not be reclassified to profit or loss			
Change in revaluation reserve from financial assets at fair value through other comprehensive income (shares)		693	1,474
Items that may be reclassified subsequently to profit or loss			
Change in revaluation reserve from financial assets at fair value through other comprehensive income (Bulgarian Government debt securities)		(8)	17
Other comprehensive income for the year, net of tax		685	1,491
Total comprehensive income for the year		34,593	37,693

These consolidated financial statements on pages 1 to 72 were approved by the Management Board and signed on its behalf by:

Reni Peycheva
Executive Director and
Member of the Management Board
22 April 2021

Ivan Dachev
Executive Director and
Member of the Management Board

Initialed for identification purposes in reference to the auditors' report:

For KPMG Audit OOD

Sevdalina Dimova
Registered Auditor responsible for the audit

Ivan Andonov
Authorised representative
For KPMG Audit OOD

For Baker Tilly Klitou and Partners OOD

Galina Lokmadjieva
Registered Auditor responsible for the audit

Spyridon Giorgalis
Authorised representative
For Baker Tilly Klitou and Partners OOD

Одиторско дружество София Рег. № 045 КПМГ Одит ООД

Одиторско дружество София Рег. № 129 Бейкър Тили Клиту и партньори ООД

The notes set out on pages 6 to 72 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

(all amounts expressed in thousands of BGN)	Notes	31.12.2020	31.12.2019
ASSETS			
Cash and central bank balances	14	595,741	282,958
Loans and advances to banks	15	122,966	325,387
Investment securities (FVOCI)	16	29,221	21,497
Loans and advances to customers, net	17	2,109,748	1,810,082
Property, plant and equipment	18	52,552	45,198
Intangible assets	18	5,995	5,490
Deferred tax assets	19	58	313
Other assets	20	6,260	9,572
Total assets		2,922,541	2,500,495
LIABILITIES			
Liabilities to banks	21	7,756	27,634
Liabilities to customers	22	2,409,027	2,051,999
Liabilities to financial institutions	23	197,498	145,454
Lease liabilities	24	3,818	4,274
Derivative financial liabilities	25	326	305
Other liabilities	26	3,374	4,882
Provisions	27	1,314	1,081
Current tax liabilities		491	522
Total liabilities		2,623,604	2,236,151
EQUITY			
Share capital and share premium	28	206,822	206,822
Legal reserve		16,887	14,931
Retained earnings		71,319	39,367
Revaluation reserve		3,909	3,224
Total equity		298,937	264,344
Total equity and liabilities		2,922,541	2,500,495

These consolidated financial statements on pages 7 to 72 were approved by the Management Board and signed on its behalf by:

Reni Peycheva
Executive Director and
Member of the Management Board
22 April 2021

Ivan Bachev
Executive Director and
Member of the Management Board

Initialled for identification purposes in reference to the auditors' report:

For KPMG Audit OOD

Sevdalina Dimova
Registered Auditor responsible for the audit

Ivan Andonov
Authorised representative
For KPMG Audit OOD

For Baker Tilly Klitou and Partners OOD

Galina Lokmadjieva
Registered Auditor responsible for the audit

Spyridon Gkroutis
Authorised representative
For Baker Tilly Klitou and Partners OOD

The notes set out on pages 8 to 72 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(all amounts expressed in thousands of BGN)	Share capital	Share premium	Legal reserve	Retained earnings	Revaluation reserve	Total
Balance as of 31 December 2018	183,768	3,496	12,975	40,544	1,733	242,516
Comprehensive income for the year						
Change in revaluation reserve, net of taxes	-	-	-	-	1,491	1,491
Transfer	-	-	1,956	(1,956)	-	-
Profit for the year	-	-	-	36,202	-	36,202
Total comprehensive income for the year	-	-	1,956	34,246	1,491	37,693
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Capital increase (note 4l)	19,558	-	-	-	-	19,558
Distributed dividends	-	-	-	(35,423)	-	(35,423)
Total contributions by and distributions to owners	19,558	-	-	(35,423)	-	(15,865)
Balance as of 31 December 2019	203,326	3,496	14,931	39,367	3,224	264,344
Comprehensive income for the year						
Change in revaluation reserve, net of taxes	-	-	-	-	685	685
Transfer	-	-	1,956	(1,956)	-	-
Profit for the year	-	-	-	33,908	-	33,908
Total comprehensive income for the year	-	-	1,956	31,952	685	34,593
Balance as of 31 December 2020	203,326	3,496	16,887	71,319	3,909	298,937

These consolidated financial statements on pages 1 to 72 were approved by the Management Board and signed on its behalf by:

Reni Peycheva
Executive Director and
Member of the Management Board
22 April 2021

Ivan Dachev
Executive Director and
Member of the Management Board

Initialled for identification purposes in reference to the auditors' report:

For KPMG Audit OOD

Svetlana Dimova
Registered Auditor responsible for the audit

Ivan Andonov
Authorised representative
For KPMG Audit OOD

For Baker Tilly Klitou and Partners OOD

Galina Lokmadjieva
Registered Auditor responsible for the audit

Spyridon Gkoutis
Authorised representative
For Baker Tilly Klitou and Partners OOD

Одиторско дружество София Рег. № 045 КПМГ Одит ООД

Одиторско дружество София Рег. № 129 Бейкър Тили Клиту и Партньори ООД

The notes set out on pages 6 to 72 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(all amounts expressed in thousands of BGN)	Notes	Year ended 31 December 2020	2019
Profit for the year		33,908	36,202
Non-cash items and transition to the cash flow from operating activities			
Loss allowance/(Reversal of loss allowance)	7	5,811	(464)
Depreciation	12	6,011	6,310
Unrealised (gains)/losses from currency revaluation	9	(392)	13
Loss on the derecognition of right-of-use asset		926	417
Net interest income	6	(59,972)	(54,301)
Income tax expense	13	3,996	4,211
Increase/ decrease of assets and liabilities from operating activities after non-cash items			
Required reserve with the central bank		(31,925)	(37,558)
Loans and advances to customers		(305,216)	(210,640)
Other and deferred tax assets		3,362	1,404
Short term liabilities to banks and financial institutions		209	(37,557)
Liabilities to customers		357,447	395,692
Derivative financial liabilities		21	-
Other liabilities		(1,276)	1,563
Interest received		64,594	59,896
Interest paid		(4,494)	(5,869)
Interest paid (lease liabilities)		(97)	(128)
Income tax paid		(3,821)	(3,820)
Cash flow from operating activities		69,121	155,313
Cash flows from investing activities			
Purchases of Property, plant and equipment and intangible assets		(13,820)	(7,779)
Income from sale of Property, plant and equipment and intangible assets		409	645
Securities purchased		(20,644)	-
Securities matured		12,823	13,032
Cash flow from investing activities		(21,232)	5,898
Cash flow from financing activities			
Dividends paid		-	(35,423)
Shares issued		-	19,558
Proceeds from long term liabilities to banks and financial institutions		68,465	97,792
Repayments from long term liabilities to banks and financial institutions		(36,095)	(158,251)
Lease liabilities		(1,840)	(1,436)
Cash flow (used in) financing activities		30,530	(77,760)
Net (decrease)/increase in cash and cash equivalents		78,409	83,451
Cash and cash equivalents at the beginning of the year		419,449	335,998
Cash and cash equivalents at the end of year	14	497,858	419,449

These consolidated financial statements on pages 1 to [illegible] were [illegible] by the Management Board and signed on its behalf by:

Reni Peycheva
Executive Director and
Member of the Management Board
22 April 2021

[illegible] Dicheva
Executive Director and
Member of the Management Board

PROCREDIT BANK SOFIA

Initialed for identification purposes in reference to the auditors' report:

For KPMG Audit OOD

Se[illegible]
Registered Auditor responsible for the audit

Ivan Andonov
Authorised representative
For KPMG Audit OOD

For Baker Tilly Klitou and Partners OOD

Galina Lokmadjeva
Registered Auditor responsible for the audit

Spyridon Gkroulis
Authorised representative
For Baker Tilly Klitou and Partners OOD

The notes set out on pages [illegible] are an integral part of these consolidated financial statements.

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

1 Reporting entity

ProCredit Bank (Bulgaria) EAD ("ProCredit Bank", "the bank" or "the institution", UIC 130598160) was founded in October 2001 by an alliance of international development-oriented investors, many of which are shareholders in ProCredit Holding AG & Co. KGaA („ProCredit Holding") today. Since the beginning of 2013 the sole shareholder of the bank is ProCredit Holding.

The bank is part of the international group of financial institutions owned by ProCredit Holding. ProCredit Holding is the ultimate parent and ultimate controlling party of the ProCredit group of banks ("the ProCredit group"). The bank has three subsidiaries – ProCredit Properties EAD, ProCredit Education EAD and Private High School "Denis Diderot" EAD (referred to collectively as "the group"), which are wholly owned.

The group is managed through a Supervisory Board consisting of five members and a Management Board consisting of four members as of December 2020 which are elected for a period of three years.

ProCredit Bank is a development oriented full service bank which aims to be a house bank for businesses and private clients. Business clients, serviced by the bank, are companies, agricultural producers and self-employed persons. They are categorised as Small and Medium enterprises (SMEs) in accordance to their business potential. Private clients are regular income receivers (salary, pension or other) and business owners. The bank strives to have comprehensive knowledge about its customers and to implement an individual approach and strategy for servicing each client, being based on the client's profile. Strategically, the bank focuses on production companies, agricultural producers, green and energy efficiency financing.

2 Basis of preparation

a Compliance with International Financial Reporting Standards

ProCredit Bank prepares its Consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") as adopted by the European Union ("EU"). IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs). The consolidated financial statements were prepared on a consolidated basis according to the Accountancy Act. The consolidated financial statements were approved by the Management Board on 22 April 2021.

The Consolidated Financial Statements comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the Notes to the Consolidated Financial Statements.

The principle accounting policies have been consistently applied to all the years presented, unless otherwise stated. All amounts are presented in thousands of Bulgarian leva (BGN), unless otherwise stated. The fiscal year of the group is the calendar year.

b Consolidation

The consolidated financial statements comprise the financial statements of ProCredit Bank (Bulgaria) EAD and its subsidiaries as of 31 December 2020. Subsidiaries are all companies which are controlled by the group, i.e. for which the group can determine the financial and operating policies. The subsidiaries are fully consolidated.

2 Basis of preparation (continued)

b Consolidation (continued)

The group had three subsidiaries as of end 2020 – ProCredit Properties EAD, ProCredit Education EAD and Private High School "Denis Diderot" EAD. Intercompany transactions, balances and unrealised gains and losses on transactions between the bank and its subsidiary companies are eliminated. Where necessary, the accounting policies of the subsidiaries have been changed to ensure consistency with the policy adopted by the group. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group.

c Measurement basis

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

- Financial assets and liabilities (including derivative instruments), measured at fair value.
- Assets held for sale - measured at fair value less costs to sell.
- Retirement benefit obligations – measured at present value of the retirement benefit obligation

d Use of assumptions and estimates

The group's financial reporting and its financial result are influenced by assumptions, estimates and management judgements which necessarily have to be made in the course of preparation of the Consolidated Financial Statements. Actual results may differ from these estimates.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with applicable standards. Estimates and judgements are evaluated on continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances. The authenticity of accounting estimates and judgments is monitored regularly.

The group makes estimates and judgments for the purposes of the accounting and disclosure. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management judgements for certain items are especially critical for the group's results and financial situation due to their materiality in amount. This applies to the following positions:

Impairment of credit exposures
By applying IFRS 9, the Incurred-Loss Model from IAS 39 is replaced by the Expected-Loss Model. Loss allowances are established in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for all debt funding instruments recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for off-balance-sheet business. Expected credit losses are recorded in an approach with various stages. ProCredit Bank reports the balance sheet items "Central bank reserves", "Loans and advances to banks", "Investment securities", "Loans and advances to customers" and "Other assets" net (including loss allowances). Further information on the group's accounting policy on loan loss provisioning can be found in Note 3g.

Measurement of deferred tax asset
The group recognises deferred tax assets only to the extent that it is probable that taxable profits will be available against which the tax-reducing effects can be utilised. The profit projection is based on the latest business planning as of December 2020 approved by the Supervisory Board of the group and therefore reflects management's view of future business prospects. The tax planning period of the group is five years. For details on the recognised amounts see Notes 13 and 19.

2 Basis of preparation (continued)

Use of assumptions and estimates (continued)

Extension and termination options and critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of premises, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the group is typically reasonably certain to extend (or not terminate).
- Otherwise, the group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. Most extension options for offices leases have not been included in the lease liability, because the group could replace the assets without significant cost or business disruption.

As at 31 December 2020 there are no potential future cash outflows which have been excluded from the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, there was no financial effect of revising lease terms to reflect the effect of exercising extension and termination options.

e New and amended standards adopted by the group

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

(i) Standards, amendments and interpretations that are already effective

- Amendments to References to the Conceptual Framework in IFRS Standards have a minor impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.
- Amendments to IAS 1 and IAS 8: “Definition of Material” have a minor impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.
- Amendments to IFRS 9, IAS 39 and IFRS 7: “Interest Rate Benchmark Reform” have a minor impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.

2 Basis of preparation (continued)

e New and amended standards adopted by the group (continued)

The following standards, amendments or interpretations were issued by the IASB and endorsed by the EU and had no impact on the financial statements: Amendments to IFRS 3 “Business Combinations”.

(ii) Standards, amendments and interpretations issued but not yet effective

Certain new accounting standards and interpretations that are not mandatory for the reporting period at 31 December 2020 and have not been previously adopted by the group have been published. The group's assessment of the impact of these new standards and interpretations is set out below.

- Amendments to IFRS 4: “Deferral of IFRS 9” have no impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2021.
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in relation to Interest Rate Benchmark Reform (IBOR reform) will have a minor impact. The amendments concern changes in contractual cash flows: If a change in the reference interest rate results in changes in contractual cash flows, the carrying amount of the financial instruments concerned shall not be adjusted or derecognised, but the effective interest rate shall be updated. Information must be disclosed on new risks arising from the IBOR reform and on how the transition to new reference interest rates is handled. Hedge accounting has no impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2021.
- Annual improvements to IFRSs (2018-2020 cycle) with amendments to IFRS 1, IFRS 9, IFRS 16 (Illustrative Example) and IAS 41 have a minor impact on the consolidated financial statements with regard to the amendment to IFRS 9. The amendment clarifies which fees are to be included when assessing whether the contractual terms of a modified financial liability differ significantly from the original financial liability. The amendments are effective for annual periods beginning on or after 1 January 2022.
- Amendments to IFRS 3: “Reference to the Conceptual Framework”, to IAS 16: “Proceeds before Intended Use” and to IAS 37: “Onerous Contracts: Cost of Fulfilling a Contract” will not have an impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2022.
- Amendments to IAS 1: "Classification of Liabilities as Current or Non-Current" have a minor impact on the consolidated financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.
- IFRS 17 “Insurance Contracts” will not have an impact on the consolidated financial statements. The standard is effective for annual periods beginning on or after 1 January 2023.
- IFRS 16 “COVID-19-Related Rent Concessions” will not have an impact on the consolidated financial statements. These amendments are affective from annual period beginning of 1 June 2020.
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021) effective 1 January 2023.
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021) effective 1 January 2023.

There was no early adoption of any standards, amendments and interpretations not yet effective.

3 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated.

a Foreign currency translation

(a) Functional and presentation currency
Items included in the consolidated financial statements are measured using the currency with which the entity operates in its primary economic environment (“the functional currency”). The financial statements are presented in Bulgarian leva, which is the group’s functional and presentation currency. All amounts stated within the consolidated financial statements are presented in thousands of Bulgarian leva unless otherwise specified.

(b) Transactions and balances
Foreign currency assets and liabilities are translated into the functional currency using the closing exchange rates, and items of income and expenses are translated at the monthly average rate of exchange when these approximate actual rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Profit or Loss (result from foreign exchange transactions).

In the case of changes in the fair value of financial assets at fair value through other comprehensive income denominated in foreign currency a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences on financial assets (debt instruments) at fair value through other comprehensive income in the Consolidated Statement of Profit or Loss.

Non-monetary items measured at historical cost denominated in foreign currency are translated with the historical exchange rate as of the date of the transaction.

As of 31 December 2020, monetary assets and liabilities denominated in foreign currency were translated into Bulgarian leva at the official central bank exchange rate: BGN 1.95583 for EUR 1 and BGN 1.59386 for USD 1 (2019: BGN 1.95583 for EUR 1 and BGN 1.74099 for USD 1).

b Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments are recognised in profit or loss using the effective interest rate method in the period in which they arise. The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit loss (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

3 Summary of significant accounting policies (continued)

b Interest income and expenses (continued)

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Payments received in respect of written-off loans are not recognised in net interest income, but rather under “Loss allowances”.

c Fee and commission income and expenses

The group provides banking services to private individuals and corporate customers (mainly SMEs), including account opening and management, provision of loan facilities, debit and credit cards, payment services in local and foreign currencies, cash operations on machines and others. Fees for ongoing account management are charged to the customer’s account on a monthly basis. Transaction-based fees are charged to the customer’s account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed by the group. Fee and commission expenses concern fees incurred by the group in dealings with other banks and are recognised on the date of the transaction.

Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

d Result from foreign exchange transactions

“Result from foreign exchange transactions” refers primarily to the results of foreign exchange dealings with and for customers. The group does not engage in any foreign currency trading on its own account. This position also includes unrealised foreign currency revaluation effects. The group does not apply hedge accounting as defined by IFRS 9.

e Financial instruments

ProCredit Bank classifies its financial assets according to their underlying business model. Differentiation is made between the following business models:

- "Hold to collect”: The financial assets are held with the aim of collecting the contractual cash flows through interest and principal payments (Solely Payments of Principal and Interest (“SPPI”) conform.
- “Hold to collect and sell”: The financial assets are held with the aim of both collecting the contractual cash flows and selling the financial assets.
- "Other": This business model is used for financial assets that are neither allocated to the “hold to collect" business model nor to the "hold to collect and sell" business model.

3 Summary of significant accounting policies (continued)

e Financial instruments (continued)

The group's business models for financial assets are assessed on the basis of groups of financial assets (portfolios). The allocation to a business model is based on the actual circumstances at the time of the assessment. This is a discretionary decision by the management. The following criteria, among others, are taken into account:

- the business and risk strategy of ProCredit Bank (and ProCredit group) and
- the way in which the development of the business model is evaluated and reported to the Management and the Supervisory Board of the bank
- if there were sales in previous periods, the frequency, volume, timing and reasons for those sales as well as expectations regarding future sales activities.

As a result, the balance sheet items allocated to the "hold to collect" business model are: "Central bank balances", "Loans and advances to banks", "Loans and advances to customers" and "Other assets". "Investment securities" (which are debt securities) are allocated to the "hold to collect and sell" business model. Furthermore, a small amount of shares are allocated to the "hold to collect and sell" business model, included in the balance sheet under "Investment securities". "Cash" and "Derivative financial assets" are allocated to the "other" business model.

There is no offsetting of any financial assets and financial liabilities.

Subsequent recognition of financial liabilities is generally performed at amortised cost. Only derivative financial liabilities are recognised at fair value.

(a) Financial assets and financial liabilities at fair value through profit or loss

Financial assets allocated to the "Other" business model are recognised at fair value through profit or loss. This includes "Cash" and "Derivative financial assets". Only "Derivative financial liabilities" are recognised as financial liabilities at fair value through profit or loss.

The group does not apply hedge accounting. Derivatives with a positive fair value at the balance sheet date are carried as financial assets and reported under "Derivative financial assets". Derivatives with a negative fair value are carried as financial liabilities and are reported under "Derivative financial liabilities".

Derivative financial instruments are initially recognised at fair value, and transaction costs are expensed in the Consolidated Statement of Profit or Loss. Purchases and sales of derivative financial instruments are recognised on the trade date – the date on which the group commits to purchase or sell the instrument. Subsequently, the financial instruments are also carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in the Consolidated Statement of Profit or Loss of the period.

Derivative financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred legal rights and substantially all risks and rewards of ownership. Derivative financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

3 Summary of significant accounting policies (continued)

e Financial instruments (continued)

(b) Financial assets at amortised costs

A financial asset is classified “at amortised cost” when the financial asset is assigned to the “hold to collect” business model with the objective to solely collect contractual cash flows through interest and principal payments (SPPI conform). These arise when the group provides capital directly to a contracting party with no intention of trading the receivable.

These financial assets are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method. Expected credit losses are basically recognised using a three-stage model (see Note 3g for the accounting policy for impairment of credit exposures, as well as Notes 7 and 17). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the Consolidated Statement of Profit or Loss. The upper limit on the reduction of the impairment is equal to the gross carrying amount which would have been incurred as of the valuation date if there had not been any impairment. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership. In addition, when loans and receivables are restructured with substantially different terms and conditions, the original financial asset is derecognised and replaced with the new financial asset.

(c) Financial assets at fair value with changes in fair value recognised in Other Comprehensive Income

A financial asset is classified and recognised as “at fair value with changes in fair value recognised in Other Comprehensive Income” (“FVOCI financial instrument”), if the financial asset is allocated to a “hold to collect or sell” business model.

In general, “investment securities” are allocated to this business model. The cash flow criterion is checked individually. All debt investment securities fulfil the cash flow criterion (SPPI conform) but can be sold if required. Furthermore, a small amount of shares (also included under the position “Investment securities”) are allocated to this business model. In general, there is no intention to trade or sell these shares.

At initial recognition, the FVOCI financial instruments are recorded at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently they are carried at fair value. Gains and losses arising from changes in fair value are recognised in the Consolidated Statement of Other Comprehensive Income under “Revaluation reserve”. If the financial asset is derecognised or impaired (for details on impairment, see Note 3g), the cumulative gain or loss previously recognised in the “Revaluation reserve” is recognised in the Consolidated Statement of Profit or Loss. Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as FVOCI financial instruments are recognised in the Consolidated Statement of Profit or Loss. For the FVOCI equity instruments, any dividend payments are recognised in the Consolidated Statement of Profit or Loss, but not the accumulated value change on derecognition (no recycling).

Purchases and sales of FVOCI financial instruments are recorded as of the trade date. They are derecognised when the rights to receive cash flows from the financial assets have expired or when the group has transferred substantially all risks and rewards of ownership.

3 Summary of significant accounting policies (continued)

e Financial instruments (continued)

(d) Other financial liabilities at amortised cost

Other financial liabilities at amortised cost are recognised initially at fair value net of transaction costs incurred. They are subsequently measured at amortised cost using the effective interest method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the Consolidated Statement of Profit or Loss over the period of the debt instrument. Financial liabilities at amortised cost are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

Fair value measurement principles

Upon acquisition, financial instruments are measured at fair value. In principle, this is the transaction price at the time they are acquired. Depending on their respective category, financial instruments are subsequently recognised either at fair value or at (amortised) cost. In general, financial instruments at fair value are measured on a recurring basis in the financial statements.

Fair value is defined 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 most advantageous) market between market participants at the measurement date.

ProCredit Bank applies the IFRS hierarchy to measure fair value. The hierarchy categorises the inputs used in the valuation techniques to measure fair value into three levels:

Level 1 Inputs
Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active if market transactions with the asset or liability occur there sufficiently frequently and in sufficient volumes to ensure the ongoing availability of pricing information.

Level 2 Inputs
Other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation techniques applied are approximations of the current fair value of similar instruments and discounted cash flow analysis using observable market parameters.

Level 3 Inputs
Unobservable inputs for the asset or liability. If observable market interest rates are not available, internal rates are used as an input for a discounted cash flow model. These internal rates reflect the cost of funds, taking into account foreign currency effects and maturities as well as a risk margin. Internal rates are regularly compared to those applied for third-party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

3 Summary of significant accounting policies (continued)

f Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity including: cash, balances with the Bulgarian National Bank ("BNB") and the Bank of Greece excluding the minimum required reserve, and amounts due from other banks.

Cash and central bank balances comprise cash and balances with the BNB and the Bank of Greece, recognised at their nominal value.

g Loss allowances

The group establishes loss allowances in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for all debt instruments recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for off-balance-sheet financial instruments. In general, a three-stage model is used to report loss allowances. Estimates and assumptions are particularly necessary for determining which future-related macroeconomic factors are to be included. Furthermore, determining probabilities in the weighting of scenarios requires discretionary decisions.

ProCredit Bank sets aside loss allowances for the balance sheet items "Central bank reserves", "Loans and advances to banks", "Loans and advances to customers", "Investment securities" and for the financial assets under "Other assets". These are generally recognised at net value within the corresponding balance sheet positions, except for the item "Investment securities" (debt securities), which are reported at fair value. The respective loss allowances are recognised in shareholders' equity under "Revaluation reserve".

Net change in loss allowances
The net change in loss allowances includes additions, reversals and change in loss allowances due to non-substantial modifications.

Recognition of loss allowances uses a three-stage model based on expected credit losses. Allocation to stages requires discretionary decisions to be made with regard to the definition of default, stage transfers and the determination of criteria as to whether there has been a significant increase in credit risk since recognition in the balance sheet:

- Stage 1: Financial assets are generally classified as "Stage 1" when they are recognised for the first time. ProCredit Bank establishes loss allowances in an amount equivalent to the expected credit losses that result from default events that are possible during a maximum of 12 months following the balance sheet date, insofar as there is no significant increase in credit risk since initial recognition.
- Stage 2: If credit risk increases significantly, the assets are classified as "Stage 2" and loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.
- Stage 3: Defaulted financial assets are classified as "Stage 3" and loss allowances are likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity. For significant exposures, loss allowances are determined on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Interest income is recognised at net book value (less loss allowances). Stage 3 also includes financial assets which are already impaired at initial recognition in the balance sheet (POCI). These financial assets are initially recognised at fair value and thus no loss allowances are established. Regardless of future changes in credit risk, POCI assets remain in Stage 3 until their derecognition.

3 Summary of significant accounting policies (continued)

g Loss allowances (continued)

For the “Other assets” position, loss allowances are established using the simplified approach. As a rule, loss allowances are recorded at initial recognition and on each subsequent reporting date in an amount equivalent to the expected credit losses during the total maturity period. For these generally short-term assets, the total maturity period has been set at 12 months.

Migration between the stages is possible in both directions, provided the grounds for the prior migration no longer exist. In the event that credit risk decreases, loss allowances already recorded are reversed.

Non-substantial modification
A non-substantial modification exist if a financial asset is modified without derecognition. The effect is to be recognised as a modification gain or loss. The modification gain or loss is equal to the difference between the original gross book value and the present value, discounted at the original effective interest rate, of the contractual cash flows under the modified terms.

Write-offs, recoveries and direct write-offs
When a loan is uncollectible, it is written off against the related loss allowance set aside. Such write-offs occur after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the Consolidated Statement of Profit or Loss under “Loss allowances”.

Restructured credit exposures
Restructuring is defined as any modification of the terms and conditions of a credit exposure by agreement between the group and the client to modify the payment plan of a credit exposure agreement in response to an increase in the current or future credit default risk associated with the client. Restructured credit exposures are assigned to Stage 3 at the moment of restructuring if either of the following conditions are met: the exposures is in arrears by more than 90 days, and/or cannot be expected to be repaid in full due to serious payment problems faced by the client. Otherwise, restructured loans are assigned to Stage 2.

Assets acquired in exchange for loans (repossessed property)
Repossessed properties are non-financial assets acquired in exchange for loans as part of an orderly realisation and are reported as “Other assets”. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan at the date of exchange. Repossessed properties are held for sale and no depreciation is charged for the respective assets. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the Consolidated Statement of Profit or Loss in “Net other operating income”. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write-down, is also recognised in “Net other operating income”, together with any realised gains or losses on disposal.

h Intangible assets

Software and licences
Acquired or developed computer software is capitalised on the basis of the costs incurred to acquire or develop and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has an expected useful lifetime of 5 years and is tested for impairment if there are indications that impairment may have occurred. Computer software is carried at cost less accumulated amortisation less impairment losses. Amortization is calculated as follows:

3 Summary of significant accounting policies (continued)

h Intangible assets (continued)

Licences	7 years
Software	5 years

i Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses, as decided by the management. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are recognised separately if they have different useful lives or provide benefits to the enterprise in a different pattern.

Subsequent purchase or production costs are included in the asset’s carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Consolidated Statement of Profit or Loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the depreciable amount of the asset over its useful live, as follows:

Buildings	40 years
Furniture	10 years
Leasehold improvements	10 years
Computers	5 years
Motor vehicles	5 years
Other fixed assets	7 years

The assets’ residual carrying values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

In addition, all assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to sell and value in use. The impairment is recognised within “Other administrative expenses”.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within “Other operating income” or “Other operating expenses” in the Consolidated Statement of Profit or Loss.

j Leases

ProCredit Bank is the lessee
At contract initiation, the group assesses whether the agreement constitutes or contains a lease. This is the case when the agreement grants the right to control the use of an identified asset for a specified period of time in return for a fee. The group uses the option to account for each leasing component and all related non-leasing components as a single leasing component. ProCredit Bank recognises an asset for the right of use granted as well as a lease liability on the commencement date. The right of use is recognised at acquisition costs. These include the amount of the lease liability, plus all lease payments made at or before commencement date, initial direct costs and estimated dismantling and removal costs, less any incentives received.

3 Summary of significant accounting policies (continued)

j Leases (continued)

The right of use is amortised on a straight-line basis until the end of the lease term. Any impairment losses are also taken into account. The lease liability is recognised at the present value of the lease payments not yet made at that time. The lease payments are discounted at the lessee's incremental borrowing rate of interest. They are subsequently measured at amortised cost using the effective interest method.

Short-term leases or leases based on assets of minor value are not recognised in the balance sheet; instead, the lease payments are recognised under administrative expenses in the consolidated statement of profit or loss over the term of the lease.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The right-of-use asset is presented as part of “Property, plant and equipment” on the statement of financial position.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the lessee’s incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

Right-of-use assets are measured initially at cost comprising the following:

- The amount of the initial measurement of lease liability.

Subsequently, the right-of-use assets, are measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for remeasurement of the lease liability due to reassessment or lease modifications.

The right-of-use assets are depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis. The amortisation periods for the right-of-use assets are as follows:

- Office premises: 10 years

3 Summary of significant accounting policies (continued)

j Leases (continued)

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. The group applies the exemption for low-value assets on a lease-by-lease basis i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognised with corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognised as an expense on a straight-line basis over the lease term.

(a) Group’s leasing activities
The group leases offices premises. Leases are negotiated on an individual basis, but in general contain similar terms and conditions (incl. termination and renewal rights). The main lease features are summarised below:

- Office premises in general rented for a period of 10 years. The contracts contain an option to renew the leases. The lease payments are fixed.

(b) Extension and termination options
Extension and termination options are included in the leasing contracts. These are used to maximise operational flexibility in terms of managing the assets used in the group’s operations. For critical judgements in determining the lease term, please refer to Note 2.

(c) Low-value leases
The costs for low value leases are recognised on a straight-line basis during the reporting period. The total cost of low-value leases is disclosed in Note 24.

k Income taxes

Taxation has been provided for in the consolidated financial statements in accordance with Bulgarian legislation.

(a) Current income tax
Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the reporting date and is recognised as an expense in the period in which taxable profits arise. Taxes other than on income are recorded under “Other administrative expenses”.

(b) Deferred income tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements prepared in conformity with IFRS, as adopted by the EU. Deferred tax assets and liabilities are determined using Bulgarian tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The tax planning period is five years.

Changes of deferred taxes related to financial instruments carried at fair value are charged to the Consolidated Statement of Other Comprehensive Income. The presentation in the Consolidated Statement of Other Comprehensive Income is made on a net basis. At the time of sale, the respective deferred taxes are transferred to current income tax.

3 Summary of significant accounting policies (continued)

l Provisions

Provisions are recognised if:

- there is a present legal or constructive obligation resulting from past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in a settlement is determined by considering the class of obligations as a whole.

Provisions for which the timing of the outflow of resources is known are measured at the present value of the expenditures, if the outflow will not be earlier than in one year's time. The increase in the present value of the obligation due to the passage of time is recognised as an interest expense. For the provisions for expected credit losses from off-balance sheet items and for provision for untaken vacation, the outflow of economic benefits is expected during the next one or two years.

Contingent liabilities, which mainly consist of certain guarantees and letters of credit issued for customers, are possible obligations that arise from past events. As their occurrence, or non-occurrence, depends on uncertain future events not wholly within the control of the group, they are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements (see Note 30).

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated annual leave as a result of services rendered by employees up to reporting date.

m Financial guarantee contracts

Financial guarantees are initially recognised in the consolidated financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the Consolidated Statement of Profit or Loss the fee income earned on a straight line basis over the life of the guarantee and the loss allowance determined in accordance with IFRS 9 at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of the Management.

n Employee benefits

Defined benefit plans

The group has an obligation to pay certain amounts to each employee who retires with the group in accordance with Art. 222, § 3 of the Labour Code ("LC"). According to the regulations in the LC, when a labour contract of a bank employee, who has acquired a pension right, is ended, the group is obliged to pay the employee compensation equivalent to two gross monthly salaries. In the event that the employee's length of service in the bank or in any entity from the group is equal to or exceeds 10 years, as of the date of retirement, then the compensation shall amount to six gross monthly salary payments. As of reporting date, the Management of the group estimates the approximate amount of the potential expenditures for every employee based on a calculation performed by a qualified actuary using the projected unit credit method. The group recognises all actuarial gains and losses arising from defined benefit plans in personnel expenses for the period.

4 Risk management

a Business model and business strategy

ProCredit Bank aims at being a leading partner providing a complete range of financial services for small and medium enterprises in Bulgaria, since these businesses have vital significance for the economic development and the creation of new jobs. The group functions in a responsible and transparent way, focusing on building long-term relationships with its clients and providing an inclusive range of professional and flexible business solutions, both for the businesses and for their owners and staff. The main competitive advantages of ProCredit Bank are the personal approach to the individual needs of the clients and the high quality of the services provided.

By offering simple and accessible deposit facilities the group promotes a culture of savings, which contributes to greater security and stability of households. At the same time ProCredit Bank does not offer complex financial products or asset management services. ProCredit Bank takes an individual approach to its clients, aiming to know their needs in order to develop a strategy for serving them effectively. The group adheres to its concept of “Know your Customer”, which is based on the assumption that if clients and their businesses are accurately identified, the group will be able to provide them with the most suitable banking services. A strategic focus of the work with clients is on funding projects leading to improving energy efficiency and environmental protection as well as funding production companies and agricultural producers. To achieve more efficient, effective and better-quality service, the group provides 24-hour access to self-service as well as easily accessible Internet banking operations (ProBanking).

The ProCredit Bank business strategy has two main purposes – to have a positive effect on the development of the economic and social environment, and to earn a commercial profit. The business model is straightforward, with asset-side operations dominated by credit issued to clients, while the liabilities basically comprise attracted funds from clients.

The business strategy is based on a focused approach to staff development. The group carefully recruits and trains its staff to work responsibly and professionally with clients. ProCredit Bank is an institution based on professionalism, communication and trust and it aims at a high level of satisfaction both for the staff and the clients. To this effect, the group makes significant investments in training its personnel.

Since November 2015 the group operates a branch in Thessaloniki, Greece offering full range of banking services to the local businesses and providing professional service and advice. All locations in Thessaloniki are equipped with modern self-service areas, which are available to customers 24 hours and 7 days a week.

b Risk management strategy

ProCredit Bank is exposed to risks in the course of its business activities. An informed and transparent approach to risk management is a central component of the socially responsible business model. This is also reflected in the group’s risk culture, resulting in decision-making processes that are well-balanced from a risk point of view. The overall risk profile of the group is appropriate and stable. This is based on an overall assessment of the individual risks, as presented in this risk report.

4 Risk management (continued)

b Risk management strategy (continued)

The aim of the risk management approach (consistently applied on a group-wide level) is to ensure that the liquidity and capital adequacy of the group continues to be appropriate at all times, as well as to achieve steady results. While the business strategy lists the objectives of the group for all material business activities and regions of operation and presents the measures to be taken to achieve them, the group's risk strategy addresses the material risks arising from the implementation of the business strategy and defines the objectives and measures of risk management. The risk strategy is broken down into strategies for all material risks in the group. The strategies are updated annually and are approved by the Management of ProCredit Bank following discussions with the group's Supervisory Board.

The principles of risk management and the risk strategy of ProCredit Bank have not changed compared to the previous year. On the contrary, during the COVID-19 pandemic the group's risk approach has proven to be appropriate. Nevertheless, the pandemic is impacting the group as Bulgaria has been strongly affected by COVID-19. The governments responded quickly to the COVID-19 outbreak in March. Responses included lockdown measures, dividend restrictions, relaxed capital and liquidity requirements, fiscal and budgetary stimulus packages, and moratoria on loan repayments. In accordance with IFRS, the moratoria do not affect the risk classification of exposures and therefore do not lead to any need for additional loss allowances.

As some of the restrictions were lifted, economic activity returned to broadly normal levels during the summer months, with the exception of some business areas such as cross-border tourism. However, in the third and fourth quarters of 2020 the spread of the pandemic accelerated again. As a result, the governments in the countries where the group operates have imposed new lockdown measures, albeit not in a uniform manner. In December 2020, the EBA also reactivated the guidelines on moratoria to further facilitate financial support to the real economy.

The group has implemented preventive safety measures in its branches and offices to protect the health of its employees and customers. Even when the number of COVID-19 cases peaked in Q4, business continuity was always ensured in both front and back-office areas. The IT infrastructure was fully functional, without any loss of performance. The group's SME "Hausbank" concept and the advanced level of digitalisation in retail banking provided a solid basis for continuing business operations without major limitations.

The developments of 2020 will affect the focus of the risk management activities in 2021. The health and economic crisis continues and, despite the positive outlook, uncertainty remains high about the degree of economic recovery in 2021. Developments in the risk situation are closely monitored. The group complied with internal limits as well as all applicable regulatory requirements at all times during the 2020 financial year. Even in light of the uncertainties resulting from the COVID-19 pandemic, the group's overall risk profile remains appropriate and stable. This is based on an overall assessment of the individual risks, as presented in the risk management section of the consolidated financial statements.

The principles of the group's business activity, as listed below, provide the foundation for its risk management. The consistent application of these principles significantly reduces the risks to which the group is exposed.

4 Risk management (continued)

b Risk management strategy (continued)

Focus on core business

ProCredit Bank focuses on the provision of financial services to small and medium businesses as well as to private clients. Accordingly, income is generated primarily in the form of interest income on customer loans and fee income from account operations and payments. All of the group's other operations are performed mainly in support of the core business. ProCredit Bank assumes mainly credit risk, interest rate risk and liquidity risk in the course of its day-to-day operations. At the same time, ProCredit avoids or very strictly limits all other risks involved in banking operations.

High degree of transparency, simplicity and diversification

ProCredit's focus on small and medium-sized businesses entails a very high degree of diversification in both customer loans and customer deposits. Geographically, this diversification spans the main business areas of Bulgaria and the Thessaloniki region in Greece. In terms of client groups, this diversification spans economic sectors, client groups (SMEs and private clients) and income groups. The diversification of the loan portfolio is a central pillar of the group's credit risk management policy. A further characteristic of the approach is that the group seeks to provide its clients with simple, easily understandable services. This leads to a high degree of transparency not only for the respective client, but also from a risk management point of view. Both the high degree of diversification and the simple, transparent services and processes result in a reduction of the group's risk profile.

Careful staff selection and intensive training

Responsible banking is characterised by long-term relationships not only with clients, but also with staff. This is why the group selects its staff very carefully and has made significant investments in training of the employees for many years. The intensive training efforts not only produce a high level of professional competence, but also and above all, they promote an open and transparent communication culture. From a risk perspective, well-trained employees who are accustomed to voicing their opinions openly are an important factor for managing and reducing risk, specifically operational risk and fraud risk.

Key elements of risk management

Risk management comprises identifying, quantifying, managing, monitoring, controlling and reporting risks. In managing risks, the group takes account of the German supervisory "Minimum Requirements for Risk Management" (MaRisk), of relevant publications by national and international regulatory authorities and of the knowledge of the markets acquired over many years. The mechanisms designed to hedge and mitigate risks are monitored regularly to ensure their effectiveness, and the procedures and methods used to manage risks are subject to ongoing further development. The key elements of risk management in ProCredit are presented below.

- All ProCredit institutions apply a single common risk management framework, which defines group-wide minimum standards. The risk management policies and standards are approved by the Management of ProCredit Bank and are updated at least annually. These specify the responsibilities at bank and establish minimum requirements for managing, monitoring and reporting.
- All risks assumed are managed by ensuring at all times an adequate level of regulatory capital and capital, calculated within the internal capital adequacy assessment process.
- The annually conducted risk inventory ensures that all material and non-material risks are identified and, if necessary, considered in the strategies and risk management processes.

4 Risk management (continued)

b Risk management strategy (continued)

- All risks assumed are managed to always ensure an adequate level of capital of the group and all ProCredit institutions, in both the normative and economic perspective, as well as adequate liquidity levels at all times.
- Monitoring and control of risks and possible risk concentrations is carried out using comprehensive analysis tools for all material risks. Early warning indicators (reporting triggers) and limits are set and monitored for all material risks. The effectiveness of the chosen measures, limits and methods is continuously controlled.
- Regular stress tests are performed for all material risks; stress tests are carried out for each individual risk category as well as across all risk categories.
- Regular and ad-hoc reporting is carried out on the risk profile, including detailed descriptions and commentaries.
- The effectiveness of the chosen measures, limits and methods is continuously monitored and controlled.
- Suitable processes and procedures for an effective internal control system are in place. This is built around the principles of segregation of duties, dual control and, for all risk-relevant operations, the separation of front and back office up to the management level; this ensures that risk management and risk control are performed independently of front-office functions.
- All new or significantly changed products undergo a thorough analysis before being used for the first time (New Risk Approval process). This ensures that new risks are assessed and all necessary preparations and tests are completed prior to the introduction of a new or significantly changed product for the first time.

Organisation of the risk management function and risk reporting

The overall responsibility for risk management is assumed by the Management Board of the group, which regularly analyses the risk profile and decides on the measures to be taken. The risk controlling function required by MaRisk is headed by a member of the Management Board. Risk management is supported conceptually and implemented operationally by the Risk Management Department and various risk management and finance functions. Various committees support and advise the Management in the performance of the risk management function.

The rules regulating risk management at the group are part of the Internal Regulations and determine:

- The process and the purposes of risk management at the group.
- The structure, composition and powers of the competent internal bodies of the group, their activities and the measures they undertake.
- The employees' duties related to monitoring, reporting, management and analysis of various risks.
- The establishment and functioning of internal control systems and the competences of the relevant management levels and of the regular staff for taking part in risk management.

The group has a compliance management system supported by the group's Code of Conduct, which is binding for all staff, and by its approach to staff selection and training. The group's Compliance Officer bears responsibility for the implementation of a group-wide system to ensure fulfilment of all regulatory requirements.

4 Risk management (continued)

b Risk management strategy (continued)

ProCredit Bank has a compliance function, which bears responsibility for adhering to national banking regulations and reports regularly and on an ad-hoc basis to the Management of the group and to ProCredit Holding. Any conduct, which is inconsistent with the established rules, can be reported anonymously both to an e-mail address established for the ProCredit group, or to an e-mail address on a local level.

Internal Audit is an independent functional area within ProCredit Bank. It provides support in determining what constitutes appropriate risk management and an appropriate internal control system within the institution. Additionally, the Internal Audit Department is supported and monitored by ProCredit Group Audit. Once per year, the Internal Audit Department carries out risk assessments of all of the group’s activities in order to arrive at a risk-based annual audit plan. This comprises risk management and risk control processes, including the identification, assessment, control, monitoring and communication of material risks. The risk management system is reviewed accordingly. The Internal Audit Department reports to the Audit Committee of the group, which generally meets on a quarterly basis. The ProCredit Group Audit team monitors the quality of the audits conducted in ProCredit Bank and provides technical guidance.

The Management of the group bears responsibility for risk management within the institution. The General Risk Assessment Committee, Credit Risk Management Committee and Operational Risk Management Committee develop the framework for risk management decision taking bodies and monitor the risk profile of the group and the individual risks. This includes the monitoring of individual risk positions and limit compliance. The Asset and Liability Committee (ALCO) is responsible for monitoring the liquidity reserve and liquidity management and the internal and regulatory capital adequacy of the group, coordinating measures aimed at securing funding for ProCredit Bank.

Risk positions are analysed regularly, discussed intensively and documented in standardised reports. The Risk Management Department reports regularly to the different risk functions at ProCredit Holding, and the respective Supervisory Board is informed on at least a quarterly basis about all risk-relevant developments. Monitoring of the group’s risk situation is carried out through a review of these reports and of additional information generated. If necessary, additional ad-hoc reporting occurs for specific topics. The aim is to achieve transparency on the material risks and to be aware at an early stage if potential problems might be arising.

Regular regional and group-wide meetings and training events support the exchange of best practices and the development and enhancement of the risk management functions.

The management of material risks in the ProCredit group is described in greater detail in the following section. This includes: credit risk, foreign currency risk, interest rate risk, liquidity and funding risk, operational risk, business risk and model risk, and risks arising from money laundering, terrorist financing and other acts punishable by law.

c Credit risk

The group defines credit risk as the risk that losses will be incurred if the party to a transaction cannot fulfil its contractual obligations at all, not in full or not on time. Within overall credit risk the group distinguishes between customer credit risk, counterparty risk (including issuer risk) and country risk. Credit risk is the most significant risk facing ProCredit Bank, and customer credit exposures account for the largest share of that risk.

4 Risk management (continued)

c Credit risk (continued)

Maximum exposure to credit risk

Exposure types	31 Dec 2020	31 Dec 2019
Loans and advances to banks	**122,966**	**325,387**
Investment securities	**22,540**	**15,056**
Fixed interest rate debt securities	22,540	15,056
Loans and advances to customers	**2,109,748**	**1,810,082**
Loans and advances to customers	2,109,748	1,810,082
Other assets	**4,743**	**5,456**
Other financial assets	4,743	5,456
Contingent liabilities and commitments	**446,479**	**320,562**
Guarantees	72,177	39,890
Letters of credit	1,308	976
Credit commitments (revocable loan commitments)	372,994	279,696

Customer credit risk

The key objectives of credit risk management are to achieve high loan portfolio quality, low risk concentrations within the loan portfolio and appropriate coverage of credit risks with loan loss provisions. Thanks to the diversification of operations across and to the experience that ProCredit Bank has gained over the past years, the group has extensive expertise with which to limit customer credit risk effectively.

ProCredit Bank serves a broad spectrum of clients, ranging from relatively small business clients with increasingly formalised structures to larger SMEs. For its lending operations, the group applies the following principles, among others:

- An analysis of the debt and payment capacity of loan clients, including an assessment of future cash flows.
- Compliance with the standards on serving business clients combined with group-wide application of a uniform risk classification approach supports the systematic collection and analysis of risk-relevant data, thus enabling the identification of risks.
- Carefully documenting credit risk analyses and processes conducted during lending operations, ensuring that the analyses performed can be understood by knowledgeable third parties.
- Rigorously avoiding over-indebtedness among loan clients.
- Building a long-term relationship with the client, maintaining regular contact and documenting the development of the exposure within the regular monitoring reports.
- Strictly monitoring the repayment of credit exposures.
- Applying closely customer-oriented, intensified loan management in the event of arrears.
- Repossessing collateral in the event of insolvency.

4 Risk management (continued)

c Credit risk (continued)

The framework for managing customer credit risk is presented in the relevant policies and standards. The policies specify, among other things, the responsibilities for managing credit risk, the principles for the organisation of the lending business, the principles involved in lending operations, and the framework for the valuation of collateral for credit exposures. The standards contain detailed explanations of the group's lending operations with business clients and private clients and of the range of credit offered. They also set forth the rules governing restructuring, risk provisioning and write-offs. Thus, the policies and standards define risk-mitigating measures for the pre-disbursement phase (credit risk assessment) and the post-disbursement phase (e.g. regular monitoring of the financial situation, review of early warning indicators, and both intensified and problem loan management).

The group divides its credit exposures into three categories: small and medium-sized business credit exposures and credit exposures to private clients. Small exposures are between EUR 50,000 and EUR 500,000. There are two sub-categories of Small credit exposures: Lower Small credit exposures up to EUR 250,000 and Upper Small credit exposures, which do not exceed EUR 500,000. Medium exposures are above EUR 500,000. There are two sub-categories of Medium credit exposures: Lower Medium credit exposures are credit exposures that do not exceed EUR 1,500,000 and Upper Medium credit exposures are credit exposures over EUR 1,500,000. Depending on the client category to which the respective credit exposure is assigned, different credit risk assessment processes are applied. These processes differ from one another in terms of the following attributes: The degree of segregation of duties, type of information that provides the basis for the credit analysis, criteria for credit decisions, and collateral requirements. A strict separation of front and back office functions up to the management level is applied for exposures over EUR 250,000.

The experience of the group has shown that a thorough creditworthiness assessment constitutes the most effective form of credit risk management. The credit decisions are therefore based predominantly on an analysis of the client's financial situation and creditworthiness. Regular on-site visits are performed for all clients to ensure an adequate consideration of their specific features and needs.

All credit decisions are taken by a credit committee. Its members have approval limits that reflect their expertise and experience. All decisions on small and medium credit exposures are taken by credit committees at the group's head offices. The only exception is for the clients in Lower small segment (up to 250 000 EUR) with Risk classification from 1 to 4 (good risk profile) and an assessment based on consolidated financial statements with standard documentation, then the decision is taken without the participation of Credit Risk Department in head office. The Credit Committee consists of 3 persons - Business Clients Adviser (BCA), Branch Manager (BM) and Deputy Branch Manager (DBM) with the respective authorization rights. If the case is more complicated and the branch's management considers that they need additional support in the analysis of the business, the BCA could send the case to the Credit Risk Department. If the exposures are particularly significant on account of their size, the decision is confirmed by the Supervisory Board of the group, usually following a positive vote issued by the responsible Group Credit Risk Management team at ProCredit Holding.

The most important basis for decision-making within the credit committee is the proposal for the financing and collateral structure, which is tailored to the customers' needs and dependent on their risk profile. In this context, the main parameters that affect the security are the loan exposure, maturity of the loan, quality of the documentation, provided by the client, and risk classification.

4 Risk management (continued)

c Credit risk (continued)

The credit risk management policies limit the possibility for unsecured credit operations. Depending on the risk profile and the maturity of the exposure, loans may also be disbursed without being fully collateralised. As a general rule, credit exposures with a higher risk profile are covered with solid collateral, mostly through mortgages.

The valuation of collaterals is conducted on the basis of valuations prepared by external, independent experts. In order to ensure that a reduction in the value of the collateral is detected at an early stage and appropriate measures can be taken, plausibility checks of collateral value are a fixed component of the annual review process of the borrowers. The appraisals must be updated at regular intervals, with plausibility checks being carried out by specialised group's staff.

Based on the group's collateralisation requirements, securing loans with mortgages is among the most important instruments for limiting credit risk. Although the largest share is concentrated in real estate, its distribution by individual purpose, location and associated market is diversified across regions and economic sectors, similar to the distribution of the loan portfolio of the group. In this context, the concentration risk via collateral is considered to be low. The distribution of the loans and advances to customers by type of collateral is presented in the table below:

Collateral held	31 Dec 2020	31 Dec 2019
Mortgage	49%	53%
Guaranties from the EIF	22%	24%
Machines and vehicles	7%	7%
Cash collateral4	4%	5%
Other types of collateral	8%	6%
Without collateral	10%	5%
Total	**100%**	**100%**

The table below sets out the carrying amount and the value of identifiable collateral (mainly commercial property) held against loans and advances to corporate customers measured at amortised cost, other than reverse sale-and-repurchase agreements. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

	2020		**2019**	
	Gross carrying amount	Collateral	Gross carrying amount	Collateral
Stages 1 and 2	2,096,090	1,772,472	1,809,953	1,600,553
Stage 3 & POCI	52,704	47,958	35,321	30,826

The following table stratifies credit exposures of housing loans to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

LTV ratio	31 Dec 2020	31 Dec 2019
Less than 50%	31,264	29,002
51%-70%	40,368	33,826
71%-90%	56,476	47,601
90%-100%	29,280	20,749
More than 100%	48,065	41,998
Total	**205,453**	**173,176**

4 Risk management (continued)

c Credit risk (continued)

The group has disbursed loans to small and medium enterprises under the auspices of JEREMIE program (Joint European Resources for Micro to Medium Enterprises), which is a joint initiative launched by the European Commission and the European Investment Bank ("EIB") to improve access to finance for Micro, Small and Medium-sized Enterprises in the EU within the Structural Funds framework for the period 2007 – 2013. The loans are partially guaranteed by the European Investment Fund ("the EIF"). Two more programs for financing of SMEs were launched in 2016 jointly with the EIF – InnovFin SME Guarantee Facility and SME Initiative Guarantee Facility providing partial guarantee for the subloans disbursed under both programs.

In 2020 there was an extension of the InnovFin program for a portfolio of loans to SMEs including COVID-19 support transactions. During 2020 new guarantee programs with EIF were launched: JEREMIE Bulgaria - Documentary Finance Guarantee for a portfolio of loans and documentary operations, ESIF EAFRD Greece for a portfolio of loans to agricultural producers and ESIF ERDF Greece for a portfolio of loans to SMEs. Additionally, in Greece guarantee agreement was signed with the Hellenic Development Bank (HDB) for a portfolio of loans to SMEs. The total customers loan portfolio outstanding under the programs described above were BGN 467,025 thousand as of end 2020 (2019: BGN 440,191 thousand).

The early detection of increases in credit risk at the borrower level is incorporated into all lending-related processes, resulting in prompt identification and timely assessment of the financial difficulties faced by clients. Moreover, the group has developed and implemented indicators for the early identification of risks based on quantitative and qualitative risk features. These include, but are not limited to, declining account turnover or volume, high usage of granted credit lines and overdrafts over a longer period of time, and arrears. Regular recording and analysis of these early warning indicators helps to manage the performing portfolio, identify potential default risks at an early stage and take the required measures to avoid a significant increase in credit risk. Reports on the affected portfolio are regularly given to the branch manager, the group's head office and in aggregated form to ProCredit Holding. Additionally, on a quarterly basis, the Risk Management Department prepares a report examining the group's loan portfolio for concentration by economic sectors / sub-sectors and geographic regions as well as the portfolio quality trends in these economic sectors / sub-sectors. Also the group regularly monitors changes in the external environment to assess their potential impact on its loan portfolio.

Exceptional events which could have an impact on a significant part of the loan portfolio (common risk factors) are analysed and discussed at group and bank level. This can lead to the imposition of limits on risk exposures towards certain groups of clients, e.g. in specific sectors of the economy or geographical regions.

The most significant new factor influencing credit risk in 2020 was the outbreak of the COVID-19 pandemic. The group's activities have therefore also focused on assessing the effects of the pandemic on the credit portfolio and on a corresponding risk-mitigation strategy.

4 Risk management (continued)

c Credit risk (continued)

Within the framework of the international and national aid measures which have been enacted, the group has adopted a conservative approach. Thus, the group envisages moratoria only as a temporary measure for short-term liquidity problems. Moratoria were issued for a period of three months (for all economic sectors) to six months (for the most affected sectors). The share of the loan portfolio in moratorium within the total loan portfolio peaked at 13.8% in May 2020. The share declined steadily thereafter, falling to 0.3% at the end of 2020. In line with EBA's interpretations, applying these moratoria did not automatically lead to forbearance measures or risk classification downgrades. However, where necessary, restructuring measures were already taken during 2020 to prevent a possible default by the customer. This is disclosed in Note 17.

In a further step, the group analysed and categorised the entire loan portfolio. Account was taken for both the expected impact of the pandemic on the economic sector/sub-sector and the company's financial performance before the pandemic. This facilitated prioritisation in the monitoring of individual exposures. The final immediate response to the pandemic outbreak was a revised assessment process for new loan disbursements and subsequent performance monitoring. It is important to note that entire business loan portfolio, not just the exposures with granted moratoria, was assessed in order to identify those business customers that are or could be affected by COVID-19 pandemic and the associated restrictions. Business exposures were classified in different categories (the so-called COVID-19 impact categories) – low, medium, high and very high. The principle of categorization is a combination of two factors – business sector and financial condition of the client. The main presumption is that the sectors are affected differently and to varying degrees by the pandemic, and in some no negative effect is observed or expected. In addition, each client is impacted by COVID-19 effects in a different financial state – some have reserves to face the crisis, whereas others do not have such financial buffers.

On the basis of asset quality indicators, the loan portfolio is divided into the categories: performing, underperforming and defaulted. The process of assigning exposures to these categories is based on an exposure being past due, a risk classification system, and on additional risk characteristics; these include the initiation of bankruptcy proceedings or similar court procedures, as well as restructurings or collateral liquidations by other banks. In addition, other factors which indicate a significant deterioration of the economic situation of the client can also play a role. The indicators allow for a clear overview of the quality of the group's portfolio, and represent one of the most important tools for the credit risk management process. The categories are as follows:

- **The performing loan portfolio** shows no signs of a potential risk increase. Although some exposures show early warning signals, these may not necessarily result in a risk increase being determined.
- **The underperforming loan portfolio** comprises exposures showing increased credit risk. This can be caused by temporary payment difficulties (30-90 days), restructuring or other factors. Nevertheless, the group still assesses full repayment of the exposure to be possible, e.g. after restructuring.
- **The defaulted loan portfolio** comprises all exposures in default, most of which have shown lasting payment difficulties (over 90 days) or other indications. These include, among other factors, when the borrower is highly unlikely to meet his loan obligations to the banking group in full or when insolvency proceedings have been initiated. Further details are provided below.

4 Risk management (continued)

c Credit risk (continued)

Once a higher risk of default is detected for a credit exposure, it is placed under intensified management. This centres on close communication with the client, identification of the source of higher credit default risk and close monitoring of their business activities. Decisions on measures to reduce the credit default risk are taken by the authorised decision-making bodies (e.g. Credit Committee on Restructuring). In addition, specialised recovery officers may be called in to support the intensified management of the credit exposure.

One of the first steps in managing such loans is to determine the economic and financial situation of the client, as this is the most important basis for decisions on whether or not the exposure can be restructured. The aim is to take such decisions at an early stage, while the chances of stabilisation are high and before the exposure enters an advanced phase of payment delay.

When a credit exposure is classified as defaulted, it is passed on to officers responsible for customer service. These officers are supported by specialists in settlement and liquidation (legal unit). Collateral is sold through liquidation to a third party at the highest possible price, typically via public auction. The majority of the collateral sold consists of tangible assets such as land or buildings.

Loss allowances
The expected credit loss (ECL) model pursuant to IFRS 9 is the central element of the approach to quantifying loss allowances for both on- and off-balance sheet financial instruments and continues to be optimised. The calculated loss allowances are determined based on the expected credit losses for several future default scenarios. This represents the combined sum of the probability-weighted results from the scenarios. ECL estimates are based on reliable information about past events, current conditions and projections of future economic conditions. A detailed description of the model specifications is provided below.

Three-stage approach
At each reporting date, all credit exposures to customers are allocated among the three stages listed below, based on changes in credit quality since initial recognition and with a distinct provisioning methodology applied to each stage. Exposures may move between stages during their lifetime.

- **Stage 1** comprises financial assets for which credit risk has not significantly increased since initial recognition as well as those showing low credit risk as of the reporting date or for which no triggers for Stage 2 or Stage 3 allocation apply. In general, assets are allocated to Stage 1 upon initial recognition, except for purchased or originated credit impaired (POCI) assets. For assets in Stage 1, the expected credit losses arising from possible default events within the 12 months following the reporting date (12-month ECL) are recognised in expenses. For exposures with a remaining maturity of less than 12 months, the probability of default (PD) applied reflects the remaining maturity.
- **Stage 2** comprises financial assets for which credit risk has significantly increased since initial recognition, but for which there is no objective indication of impairment. This assessment takes account for appropriate and plausible information. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity, i.e. lifetime expected losses (lifetime ECL not credit impaired).
- **Stage 3** includes all financial assets that are credit impaired as of the reporting date, i.e. there is both a significant increase in credit risk and objective indication of impairment. The respective calculation of loss allowances is performed based on the lifetime expected credit losses considering a 100% probability of default (lifetime ECL credit impaired).

4 Risk management (continued)

c Credit risk (continued)

Calculation of ECL

Expected credit losses are calculated using the following main parameters:

Exposure at default (EAD):
EAD is the exposure expected to be outstanding in the case of a credit default. It is derived from the current exposure to the client and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For exposures with regular repayment plans, the modelled EAD is adjusted considering the expectation of prepayments based on historical observations, scenarios with respect to the economic environment, and forward-looking forecasts. Using historical observations, an estimate is made of the potential future amounts which can be drawn under the contract for lending commitments such as credit lines and overdrafts. For financial guarantees, the EAD represents the amount of the guaranteed exposure, adjusted by a conversion factor based on an analysis of past performance and expert judgement.

Probability of default (PD):
PD represents the probability of a credit default within a specified period of time. It is derived from historical data on default events, such as date, type and amount of default, and from information about the risk characteristics of clients as used in the internal risk classification system. The parameters take into account country specifics and also differing risk levels of certain client segments within the institution. The group employs statistical models, developed by ProCredit Holding, to analyse the historical data and to generate forward-looking forecasts of the default probabilities based on scenarios with respect to the economic environment. In addition, the PDs over the remaining lifetime of an exposure are estimated.

Loss given default (LGD):
LGD represents the expected credit loss in the event of default, as based on historical data about recoveries from defaulted clients. LGDs are calculated on a discounted cash flow basis, include recovery costs, and consider differences between exposure sizes. The LGD estimates are adapted to be forward-looking forecasts based on scenarios with respect to the economic environment.

Input data for the assessment of credit risk parameters are based on multi-year data histories for all borrowers in the group. Regression analysis is used to estimate the impact of client risk characteristics as well as macroeconomic factors for the considered parameters. Selection of relevant macroeconomic factors (GDP growth, inflation rate, unemployment rate) is based on their statistical significance and economic plausibility.

4 Risk management (continued)

c Credit risk (continued)

For PDs and LGDs, a probability-weighted average value is calculated specified at point-in-time (PiT) forecast based on the various scenarios of the forward-looking macroeconomic factors in the forecast year. ECL estimates are based on reliable information about past events, current conditions and projections of future economic conditions using the International Monetary Fund (IMF) outlook. A mean, an optimistic and a pessimistic scenario is generated for each macroeconomic factor:

- The mean scenario is based on the current forecasts provided by IMF.
- Pessimistic and optimistic scenarios:
  - Based on the historical distribution of the changes of the macroeconomic variables.
  - The scenarios are formed by the 25th and 75th percentile of the distribution.
  - Depending on the variable, the upper (or lower) quantile may be interpreted as a pessimistic or an optimistic scenario. For, example, for inflation the 75th percentile defines the pessimistic scenario, whereas for GDP growth the 75th percentile defines the optimistic scenario.

The pessimistic, mean, and optimistic scenarios have weights of 0.25, 0.50 and 0.25, respectively. The scenarios are derived for the time period under consideration (usually the current or upcoming year) and the subsequent one. The following table presents the macroeconomic variables for all of the scenarios for 2020 and 2021.

Country	Year	GDP			Inflation			Unemployment		
		mean	optimistic	pessimistic	mean	optimistic	pessimistic	mean	optimistic	pessimistic
Bulgaria	2020	-0.31	1.75	-1.28	1.80	-1.81	5.23	4.90	3.24	6
Bulgaria	2021	1.16	3.22	0.19	2.00	-1.61	5.43	4.77	3.11	6

The sensitivity of loss allowance is analysed in terms of the influence of relevant macroeconomic factors. GDP is the main macroeconomic factor which drives change to the loss allowance on loans to customers, whereas the effect of the other economic variables in negligible. The following table presents loss allowances on loans to customers following a one-percent shift in GDP growth.

	31 December 2020		
in BGN thousands	Loss allowance GDP growth +1%	Loss allowance	Loss allowance GDP growth -1%
Total loss allowance	35,472	39,046	43,619

Changes in the above assumptions can lead to changes in the calculated loss allowances over time. The ProCredit group acknowledges that discretionary decisions of the Management and estimation uncertainties can have a significant impact on the establishment of loss allowances for collectively and individually assessed exposures. Such discretion is based on the applied definition of default, the approach to determining a significant increase in credit risk (SICR) and the selected macroeconomic factors.

Significant increase in credit risk

When determining whether or not a significant increase in credit risk (SICR) has occurred, both quantitative and qualitative information is used.

The quantitative test for SICR consists of a comparison between the expected PD over the remaining lifetime as of the reporting date and the expected PD over the corresponding time period at initial recognition. A significant increase in credit risk is deemed to exist if the difference between the PDs exceeds the limit of 150%. In this case, the respective financial instrument is transferred from Stage 1 to Stage 2. Conversely, a transfer from Stage 2 to Stage 1 is possible once the associated credit risk has decreased significantly.

4 Risk management (continued)

c Credit risk (continued)

Additionally, qualitative indicators are used when determining whether or not a significant increase in credit risk has occurred. A transfer from Stage 1 to Stage 2 occurs if one of the following criteria applies:

- Contractual payments are more than 30 days but less than 90 days past due.
- Classification of the exposure as restructured according to internal policy (adjustment of the originally agreed contractual conditions).
- The customer is assigned to a risk class defined as insufficient in the risk classification system.

Impaired credit exposures
A credit exposure is considered impaired and is thus transferred to Stage 3 if one of the following criteria applies at the reporting date:

- Contractual payments on any material credit obligations more than 90 days past due
- Signs of significant financial difficulty of the borrower
- Repayment cannot be completed without the realisation of collateral
- Initiation of bankruptcy proceedings
- Court procedures threatening the existence of the client's business or repayment capacity
- Fraudulent exposures

For more information about impaired loans and advances to customers, please see Note 17. The group has no other impaired credit exposures.

Definition of default
ProCredit Bank has aligned the definition of impairment according to IFRS 9 with the regulatory definition of default. This default definition is also used for internal risk management and is applied to all exposures which are part of the customer loan portfolio. The group considers an exposure to be impaired if at least one of the above criteria is met and the expected cash flows have been negatively impacted to such an extent that full repayment of the receivable can no longer be assumed.

When determining provisions in Stage 3, a distinction is drawn between significant individually impaired and insignificant impaired credit exposures: the threshold on a group of borrowers' level is EUR 150,000. For significant exposures with indications of impairment, an individual assessment is performed to determine provisioning, taking account for the expected inflows, including collateral liquidation. The group places strong emphasis on taking a careful approach to cost estimates and expected proceeds, as well as to the assumptions about the duration of collateral realisation. For insignificant exposures, the provisions are based on a collective assessment of the credit risk parameters.

The migration of an exposure from Stage 3 to an improved stage is possible if the client is able to settle debts in full without recourse to collateral realisation. Purchased or Originated Credit Impaired (POCI) assets are not eligible for migration between stages.

4 Risk management (continued)

c Credit risk (continued)

Purchased or Originated Credit Impaired (POCI) assets

As part of the impaired exposures, the group has introduced special treatment of POCI exposures in accordance with IFRS 9 requirements concerning modified financial assets. Within the group's business model, the acquisition of such default-threatened assets is not permitted. Accordingly, POCI exposures can only arise in the course of a renegotiation or significant modification of the contractually agreed cash flows of an existing exposure. POCI assets do not carry an impairment allowance on initial recognition. In subsequent periods, any changes to the estimated lifetime ECL are recognised in the profit and loss statement. Favourable changes are recognised as an impairment gain, even if favourable changes are more than the amount, if any, previously recognised in profit or loss as impairment losses. Ultimately, only the changes in lifetime ECL since initial recognition of the asset are recognised as a loss allowance for these assets.

Changes to contractual terms (modifications)

Modifications to the original contractually agreed credit obligations can be granted to improve collection opportunities and if possible, avoid default, foreclosure or repossession of an asset. The group uses both quantitative and qualitative factors to determine whether there has been a substantial modification. As a quantitative factor, modified loans are assessed using the Net Present Value Test (NPV Test). If the change in NPV is less than 10% the results indicate a non-substantial modification, the modification gain or loss is recognised in the profit and loss statement. In contrast, if the NPV test shows a change that is more than 10% the results indicate a substantial modification, the original loan is derecognised and a new loan is recognised at its fair value at the modification date.

Write off

Exposures are only written off when there is no reasonable expectation of recovery. The direct and indirect costs of managing credit exposures that have not been written off must also be in proportion to the size of the outstanding exposure.

The group performs an assessment for specific individual impairment for credit exposures of any size if there is no reasonable expectation of recovery. The group carries out such an assessment at the latest when exposures reach 180 days past due for exposures up to EUR 10,000, and at the latest by 360 days for exposures above EUR 10,000, in particular if they are not collateralised. Depending on the assessment outcome, the group may decide to write off or keep the credit exposure active to allow for an ongoing recovery.

Individual assessment

When determining loss allowances a distinction is drawn between individually significant and individually insignificant credit exposures: the threshold on a group of borrowers' level is EUR 150,000. For significant exposures with indications of impairment, an individual assessment is performed to determine allowances, taking account for the expected inflows, including collateral liquidation. Here, the group places great emphasis on a careful approach to estimating costs and expected earnings and also with respect to assumptions about the timeframe for liquidation. Regardless of the amount of loss allowance, a loan is classified as impaired as soon as the expected cash flows take account for liquidation of collateral.

4 Risk management (continued)

c Credit risk (continued)

The following table provides an overview of the respective gross and net exposure amounts and loss allowances for financial assets, broken down by stages:

As of 31 Dec 2020	Stage1	Stage 2		Stage 3			POCI	Total
	12 month ECL	Lifetime ECL		Lifetime ECL				
		0-30 days	31-90 days	0-30 days	31-90 days	over 90 days	0-30 days	
Gross outstanding amount	2,052,095	42,084	1,911	20,970	1,724	29,195	815	**2,148,794**
Loss allowances	(14,144)	(1,752)	(74)	(4,840)	(858)	(17,352)	(26)	**(39,046)**
Carrying amount	**2,037,951**	**40,332**	**1,837**	**16,130**	**866**	**11,843**	**789**	**2,109,748**

As of 31 Dec 2019	Stage1	Stage 2		Stage 3			POCI	Total
	12 month ECL	Lifetime ECL		Lifetime ECL				
		0-30 days	31-90 days	0-30 days	31-90 days	over 90 days	0-30 days	
Gross outstanding amount	1,739,580	68,752	1,621	10,972	1,377	22,109	863	**1,845,274**
Loss allowances	(12,834)	(2,824)	(57)	(4,635)	(428)	(14,412)	(2)	**(35,192)**
Carrying amount	**1,726,746**	**65,928**	**1,564**	**6,337**	**949**	**7,697**	**861**	**1,810,082**

4 Risk management (continued)

c Credit risk (continued)

The following table presents gross and net exposures, broken down according to economic sector and by stage.

As of December 31, 2020	Business loans					Private loans			Total
	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transportation and storage	Other economic activities	Housing	Investment loans and OVDs	Other	
Stage 1									
Gross outstanding amount	355,200	402,232	386,477	95,668	581,789	201,924	24,178	4,627	**2,052,095**
Loss allowances	(2,241)	(2,321)	(2,343)	(573)	(4,121)	(2,175)	(331)	(39)	**(14,144)**
Carrying amount	**352,959**	**399,911**	**384,134**	**95,095**	**577,668**	**199,749**	**23,847**	**4,588**	2,037,951
Stage 2									
Gross outstanding amount	4,040	21,248	5,084	2,164	10,306	853	249	51	**43,995**
Loss allowances	(276)	(815)	(238)	(55)	(322)	(111)	(8)	(1)	**(1,826)**
Carrying amount	**3,764**	**20,433**	**4,846**	**2,109**	**9,984**	**742**	**241**	**50**	42,169
Stage 3									
Gross outstanding amount	15,150	3,255	9,870	2,875	17,833	2,676	136	94	**51,889**
Loss allowances	(4,629)	(1,418)	(3,941)	(1,621)	(9,819)	(1,480)	(85)	(57)	**(23,050)**
Carrying amount	**10,521**	**1,837**	**5,929**	**1,254**	**8,014**	**1,196**	**51**	**37**	28,839
POCI									
Gross outstanding amount	-	-	-	-	815	-	-	-	**815**
Loss allowances	-	-	-	-	(26)	-	-	-	**(26)**
Carrying amount	**-**	**-**	**-**	**-**	**789**	**-**	**-**	**-**	789

As of December 31, 2019	Business loans					Private loans			Total
	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transportation and storage	Other economic activities	Housing	Investment loans and OVDs	Other	
Stage 1									
Gross outstanding amount	353,469	370,330	359,800	112,690	352,576	168,674	17,279	4,762	**1,739,580**
Loss allowances	(2,397)	(2,373)	(2,436)	(680)	(2,837)	(1,874)	(201)	(36)	**(12,834)**
Carrying amount	**351,072**	**367,957**	**357,364**	**112,010**	**349,739**	**166,800**	**17,078**	**4,726**	1,726,746
Stage 2									
Gross outstanding amount	18,146	14,260	15,800	5,399	14,593	2,076	53	46	**70,373**
Loss allowances	(771)	(372)	(959)	(89)	(525)	(162)	(2)	(1)	**(2,881)**
Carrying amount	**17,375**	**13,888**	**14,841**	**5,310**	**14,068**	**1,914**	**51**	**45**	67,492
Stage 3									
Gross outstanding amount	8,086	3,670	5,586	2,494	11,741	2,426	118	337	**34,458**
Loss allowances	(4,307)	(1,705)	(3,533)	(1,477)	(6,870)	(1,330)	(79)	(174)	**(19,475)**
Carrying amount	**3,779**	**1,965**	**2,053**	**1,017**	**4,871**	**1,096**	**39**	**163**	14,983
POCI									
Gross outstanding amount	-	-	-	-	863	-	-	-	**863**
Loss allowances	-	-	-	-	(2)	-	-	-	**(2)**
Carrying amount	**-**	**-**	**-**	**-**	**861**	**-**	**-**	**-**	861

Credit risk at the portfolio level is assessed on a quarterly basis and, if necessary, more frequently. This includes an analysis of portfolio structure and quality, restructured exposures, write offs, the coverage ratio (risk provisions in relation to past-due portfolio) and concentration risk.

Concentration risk in the customer loan portfolio is limited by diversification. This diversification is a consequence of lending to small and medium businesses in various economic sectors. Geographically, the loans and advances to customers are predominantly disbursed to clients, which are Bulgarian or Greek residents.

4 Risk management (continued)

c Credit risk (continued)

In addition, the ProCredit Bank limits the concentration risk of its portfolios by means of the following requirements: large credit exposures (those exceeding 10% of regulatory capital) require the coordination with the ProCredit Group Risk Management Committee and approval of the Supervisory Board of the group. No large credit exposure may exceed 25% of regulatory capital, and the sum of all large credit exposures may not exceed 150% of its regulatory capital. The largest credit exposure of the group was 12% of the regulatory capital as of end 2020 (2019: 7%).

Continuous training of the staff ensures that credit risk is properly evaluated whenever a loan is issued, and that credit exposures are closely observed throughout their lifetime and, if necessary, that appropriate measures are taken in a timely manner.

The group's client credit risk is regularly quantified in the risk-bearing capacity calculation using a credit risk model. Relevant stress scenarios are also used to determine the economic capital needed by the group to cover client credit risk in extremely negative circumstances.

The group monitors concentration of risk by economic sector and geographic location. Analyses of concentrations of credit risk is shown below. Business loans include loans for business purposes (working capital or investments) disbursed to Small and Medium clients. Business loans include agricultural loans as well as business overdrafts and revolving loans. Loans to Private clients include consumer and housing loans as well as consumer overdrafts and credit card receivables.

As of 31 December 2020	<= 50,000 EUR	>50,000 <= 250,000 EUR	> 250,000 EUR	Total
Business loans	**111,463**	**572,849**	**1,229,694**	**1,914,006**
Wholesale and retail trade	22,052	128,881	223,457	374,390
Agriculture, forestry and fishing	49,708	202,687	174,340	426,735
Production	11,385	97,790	292,256	401,431
Transportation and storage	11,817	47,279	41,611	100,707
Other economic activities	16,501	96,212	498,030	610,743
Private loans	**69,458**	**144,044**	**21,286**	**234,788**
Housing	41,083	143,084	21,286	205,453
Investment loans and OVDs	23,939	624	-	24,563
Others	4,436	336	-	4,772
Customer loan portfolio (gross)	**180,921**	**716,893**	**1,250,980**	**2,148,794**

As of 31 December 2019	<= 50,000 EUR	>50,000 <= 250,000 EUR	> 250,000 EUR	Total
Business loans	**105,787**	**566,841**	**976,875**	**1,649,503**
Wholesale and retail trade	22,873	138,062	218,766	379,701
Agriculture, forestry and fishing	41,747	194,133	152,380	388,260
Production	13,174	98,266	269,746	381,186
Transportation and storage	12,970	51,888	55,725	120,583
Other economic activities	15,023	84,492	280,258	379,773
Private loans	**68,375**	**115,836**	**11,560**	**195,771**
Housing	46,897	114,719	11,560	173,176
Investment loans and OVDs	16,736	714	-	17,450
Others	4,742	403	-	5,145
Customer loan portfolio (gross)	**174,162**	**682,677**	**988,435**	**1,845,274**

The tables below present the customer loan portfolio and contingent liabilities and commitments split by risk classification, applied by the group.

4 Risk management (continued)

c Credit risk (continued)

As of 31 December 2020

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-5: Performing	1,702,862	15,536	-	-	1,718,398
Grades 6-7: Underperforming	11,287	27,485	-	-	38,772
Grade 8: Credit-impaired	-	-	48,260	815	49,075
Non-rated exposures	337,946	974	3,629	-	342,549
Gross carrying amount	**2,052,095**	**43,995**	**51,889**	**815**	**2,148,794**

As of 31 December 2019

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-5: Performing	1,469,623	46,864	-	-	1,516,487
Grades 6-7: Underperforming	3,646	21,961	-	-	25,607
Grade 8: Credit-impaired	-	-	31,025	863	31,888
Non-rated exposures	266,310	1,549	3,433	-	271,292
Gross carrying amount	**1,739,579**	**70,374**	**34,458**	**863**	**1,845,274**

Contingent liabilities and commitments (Note 30)	Stage 1	Stage 2	Stage 3	IAS37 contracts	Total
Grades 1-5: Performing	365,557	6,540	13	39,993	412,103
Grades 6-7: Underperforming	35	2,267	-	250	2,552
Grade 8: Credit-impaired	-	-	1,730	9	1,739
Non-rated exposures	28,431	12	6	1,636	30,085
Gross carrying amount	394,023	8,819	1,749	41,888	446,479

As of 31 December 2019

Contingent liabilities and commitments (Note 30)	Stage 1	Stage 2	Stage 3	IAS37 contracts	Total
Grades 1-5: Performing	259,681	6,578	-	24,028	290,287
Grades 6-7: Underperforming	88	109	-	468	665
Grade 8: Credit-impaired	-	-	1,917	10	1,927
Non-rated exposures	26,858	-	15	810	27,683
Gross carrying amount	286,627	6,687	1,932	25,316	320,562

Non- rated include exposures to private clients or exposures to enterprises which are lower than EUR 50,000.

The following table breaks down the group’s financial instruments at their carrying amounts, as categorized by geographical region as of 31 December:

As of 31 December 2020	Bulgaria	Greece	Germany	Serbia	North Macedonia	Total
Assets						
Loans and advances to banks	14,345	6	79,269	29,346	-	122,966
Investment securities (FVOCI)	22,540	-	-	-	-	22,540
Loans and advances to customers, net	1,711,180	398,568	-	-	-	2,109,748
Other financial assets	4,550	193	-	-	-	4,743
Total assets	**1,752,615**	**398,767**	**79,269**	**29,346**	**-**	**2,259,997**
Contingent liabilities and commitments (Note 30)	396,154	50,325	-	-	-	446,479

4 Risk management (continued)

c Credit risk (continued)

As of 31 December 2019	Bulgaria	Greece	Germany	Serbia	North Macedonia	Total
Assets						
Loans and advances to banks	9,700	-	315,687	-	-	325,387
Investment securities (FVOCI)	15,056	-	-	-	-	15,056
Loans and advances to customers, net	1,618,084	190,821	-	-	1,177	1,810,082
Other financial assets	5,302	154	-	-	-	5,456
Total assets	**1,648,142**	**190,975**	**315,687**	**0**	**1,177**	**2,155,981**
Contingent liabilities and commitments (Note 30)	312,415	8,147	-	-	-	320,562

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurance that the group will make the payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans and guarantees. With respect to credit risk on commitments to extend credit, the group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total commitments since commitments to extend credit are contingent upon customers maintaining specific credit standards.

d Counterparty risk, including issuer risk

The group defines counterparty risk, including issuer risk, as the risk that a counterparty/issuer cannot fulfil its contractual obligations at all, not in full or not on time. Counterparty risk in the group mainly arises from keeping highly liquid assets for the purpose of managing liquidity. There are also structural exposures towards the BNB and the Bank of Greece in the form of mandatory minimum reserves.

The framework for managing the counterparty risk is approved by the Management of the group and is specified in the respective policies and standards. These define counterparty risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. Both the ALCO and the General Risk Assessment Committee are involved in decisions made with regard to counterparty risk.

Counterparty risk is managed according to the principle that the group's liquidity must be placed securely and, to the greatest extent possible, in a diversified manner. While the group tries to generate some income from these assets, the overriding objective is to ensure secure placement and timely availability, i.e. risk considerations predominate. For this reason, the group only works with carefully selected reliable banks that have a high credit rating, typically places money for short terms (up to three months, but typically shorter) and uses only a very limited number of simple financial instruments.

4 Risk management (continued)

d Counterparty risk, including issuer risk (continued)

Issuer risk is likewise managed according to these principles. The group is prohibited from engaging in speculative trading. As a matter of principle, only highly liquid securities are bought, typically with a maximum maturity of three years at fixed-interest rates. BGN liquidity is predominantly placed at the BNB or invested in Bulgarian sovereign bonds. EUR or USD, on the other hand, are generally invested in ProCredit Bank Germany or securities issued by multilaterals internationally rated at least AA-. The impact of market price changes on the group is limited. The reasons are that the volume of securities is rather low, their maturities are short and issuers are carefully selected based on conservative risk criteria.

Since the outbreak of the COVID-19 pandemic, the group has closely monitored the credit quality of its counterparties. To this end, the group has closely followed rating actions by rating agencies, news coverage, analysis reports and assessments by the group's risk managers, among other information.

Typically, our counterparties are the BNB, Bulgarian Governments and commercial banks. The main types of exposure are account balances, short-term time deposit accounts (TDAs), highly liquid securities, and, on a very limited scale, simple derivative instruments for liquidity management and hedging purposes (mostly foreign currency forwards and swaps). The group limits counterparty and issuer risk within through its conservative investment strategy. Due to mandatory minimum reserves and the decision made by the Bulgarian National Bank from March 2020 in regard to increasing the banking system's liquidity by reducing the group's foreign exposures, a concentration exists with regard to exposure towards the BNB.

The group's exposure to counterparty and issuer risk increased in 2020 compared to the end of 2019 in line with the growth of the customer deposits and the corresponding increase of the liquid funds. The placements are concentrated towards central banks and ProCredit Bank Germany. The liquid assets other than physical cash of the group were placed as follows:

Counterparty	31 Dec 2020	in %	31 Dec 2019	in %
Central banks	**562,527**	**80%**	**248,490**	**42%**
Mandatory reserves	220,821	32%	188,896	32%
Other cash equivalents	341,706	48%	59,594	10%
Banking groups	**122,966**	**17%**	**325,387**	**56%**
OECD banks	79,275	11%	315,687	54%
Local banks	14,345	2%	9,700	2%
Other banks	29,346	4%	-	-
Securities issued by Bulgarian Government	**22,540**	**3%**	**15,056**	**2%**
Total	**708,033**	**100%**	**588,933**	**100%**

The table below presents an analysis of debt securities and banks placements by rating agency designation, based on the credit assessments of the rating agency Fitch:

As of 31 Dec 2020

Rating	Debt instruments	Loans and advances to banks	Total
AA- to AA+	-	9,584	9,584
BBB- to BBB+	22,540	113,382	135,922
Total	**22,540**	**122,966**	**145,506**

As of 31 Dec 2019

Rating	Debt instruments	Loans and advances to banks	Total
AA- to AA+	-	2	2
BBB- to BBB+	15,056	325,385	340,441
Total	**15,056**	**325,387**	**340,443**

4 Risk management (continued)

d Counterparty risk, including issuer risk (continued)

Exposure to a counterparty is impaired if one or more events with an adverse effect on the expected future cash flows have occurred. Examples of such events are a breach of contract (such as default or overdue payment), significant financial difficulties of the counterparty, or a significant deterioration of the external rating. None of positions shown was past due nor showed any signs of impairment as of 31 December 2020. The group has established provisions in accordance with IFRS 9 requirements (see also notes 14-17 to the consolidated financial statements).

The exposure towards counterparties and issuers is managed on the basis of a limit system, as is the case for customer credit risk. ProCredit Bank concludes transactions only with counterparties that have previously been carefully analysed and for which a limit has been approved. The total limit for banks or banking groups is also set, with a distinction being made between banks and banking groups based in an OECD country and those outside of the OECD. The typical maximum maturity of the group's term deposits is three months; longer maturities must be approved. Approval is required before any investments in securities. The group's counterparty risk is quantified and analysed regularly as part of the internal capital adequacy calculation. When calculating the risk- and term-adjusted exposure, all exposures towards counterparties are taken into account.

e Market risk

Market risks comprise the risk of potential losses from shifts in market prices, such as exchange rates or other parameters which influence prices. Relevant market risks for the ProCredit group are foreign currency risk and interest rate risk in the banking book. The group manages market risks in such a way that their impact is as limited as possible from an overall risk perspective. In accordance with the group risk strategy, foreign currency risk and interest rate risk may not be incurred for speculative purposes. Foreign currency and interest rate derivatives are used exclusively for hedging or liquidity purposes. ProCredit Bank is non-trading book institution.

Foreign currency risk

The group defines foreign currency risk as the risk that the group incurs losses due to exchange rate fluctuations. Foreign currency risk can have adverse effects on income and can lead to a decline in regulatory capital ratios.

The framework for managing the foreign currency risk is approved by the Management of the group and is specified in the respective policies and standards. These define foreign currency risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. Both the ALCO and the General Risk Assessment Committee are involved in decisions made with regard to currency risk.

Results are impacted negatively when the volume of the assets and liabilities denominated in foreign currencies do not match and the exchange rates move unfavourably. The key risk indicator that captures the balance sheet discrepancy for each currency is the open currency position (OCP). Limits for OCP are set at bank level. The total OCP is calculated as the sum of the absolute values of the individual currency positions and is limited to 10% of the group's capital, unless deviation from this limit has been approved by the ProCredit Group ALCO or ProCredit Group Risk Management Committee. A threshold of 7.5% of the ProCredit Bank's capital has been defined as an early warning indicator for the total OCP, and ±5% for each individual currency OCP.

ProCredit Bank operates in an environment, where the local currency is stable because of the currency board in Bulgaria. It guarantees that in a mid-term no fluctuations of the local currency to the EUR exchange rate are expected. As almost all of the assets and liabilities are denominated either in local currency or in EUR, the exposure of the group toward foreign currency risk is insignificant.

4 Risk management (continued)

e Market risk (continued)

The profit or loss effect arising from OCPs also measured regularly when calculating the risk-bearing capacity of ProCredit bank. The calculation is based on a Value at Risk (VaR)-type analysis of the OCPs considering historically extreme exchange rate volatilities during the past seven years. In addition, regular stress tests are conducted for the risk arising from OCPs. The table below summarizes the group’s exposure to foreign currency exchange rate risk.

As of 31 December 2020	**BGN**	**EUR**	**USD**	**Other**	**Total**
Assets					
Cash and central bank balances	285,574	309,436	673	58	595,741
Loans and advances to banks	-	54,160	52,441	16,365	122,966
Investment securities (FVOCI)	918	22,611	5,692	-	29,221
Loans and advances to customers, net	1,019,574	1,088,726	1,448	-	2,109,748
Other financial assets	3,931	807	5	-	4,743
Total financial assets	**1,309,997**	**1,475,740**	**60,259**	**16,423**	**2,862,419**
Liabilities					
Liabilities to banks	316	7,439	1	-	7,756
Liabilities to customers	1,384,558	945,722	62,585	16,162	2,409,027
Liabilities to financial institutions	-	197,498	-	-	197,498
Lease liabilities	3,446	372	-	-	3,818
Derivative financial liabilities	-	326	-	-	326
Other financial liabilities	1,239	1,156	22	1	2,418
Total financial liabilities	**1,389,559**	**1,152,513**	**62,608**	**16,163**	**2,620,843**
Net balance sheet position	**(79,562)**	**323,227**	**(2,349)**	**260**	**241,576**
Contingent liabilities and commitments (Note 30)	288,517	156,297	1,665	-	446,479
Open spot transactions	(15,647)	17,785	(2,446)	308	-

As of 31 December 2019	**BGN**	**EUR**	**USD**	**Other**	**Total**
Assets					
Cash and central bank balances	258,757	23,179	961	59	282,956
Loans and advances to banks	9,700	260,084	44,266	11,337	325,387
Investment securities (FVOCI)	5,965	10,080	5,452	-	21,497
Loans and advances to customers, net	892,080	916,497	1,505	-	1,810,082
Other financial assets	4,726	730	-	-	5,456
Total financial assets	**1,171,228**	**1,210,570**	**52,184**	**11,396**	**2,445,378**
Liabilities					
Liabilities to banks	239	27,394	1	-	27,634
Liabilities to customers	1,225,203	761,919	53,542	11,335	2,051,999
Liabilities to financial institutions	-	145,454	-	-	145,454
Lease liabilities	3,739	535	-	-	4,274
Derivative financial liabilities	-	305	-	-	305
Other financial liabilities	2,947	1,052	24	1	4,024
Total financial liabilities	**1,232,128**	**936,659**	**53,567**	**11,336**	**2,233,690**
Net balance sheet position	**(60,900)**	**273,911**	**(1,383)**	**60**	**211,688**
Contingent liabilities and commitments (Note 30)	216,767	102,792	1,003	-	320,562
Open spot transactions	-	1,477	(1,524)	53	6

4 Risk management (continued)

e Market risk (continued)

Interest rate risk in the banking book

Interest rate risk is the risk of incurring losses due to changes in market interest rates and primarily arises from differences between the repricing maturities of assets and liabilities.

The framework for managing the interest rate risk is approved by the Management of the group and is specified in the respective policies and standards. These define interest rate risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. General Risk Assessment Committee is responsible for all key decisions regarding interest rate risk management, and this committee analyses, at least quarterly, the interest rate risk profile of the group.

In order to manage interest rate risk, ProCredit Bank primarily issues variable-rate loans. In this way, the repricing maturities of assets can be better matched to the repricing maturity of liabilities, even when liabilities have shorter maturities than loans. In order to grant variable-rate loans in a transparent manner, the group uses a publicly available interest rate as a benchmark when adjusting the interest rates.

The measuring, monitoring and limiting of interest rate risk is based on repricing gap analyses. The assets and liabilities are distributed across time buckets according to the terms of the underlying contracts. Sight deposits are included in the gap analyses as non-interest bearing whereas saving accounts are presented in the time bucket up to one month. Included in the table are the group’s assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. Loans to customers that are non-interest bearing comprise exposures with worsened credit quality. The table below summarises the group’s exposure to interest rate risk.

4 Risk management (continued)

e Market risk (continued)

As of 31 December 2020	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and central bank balances	341,757	-	-	-	-	253,984	595,741
Loans and advances to banks	64,707	29,334	-	-	-	28,925	122,966
Investment securities (FVOCI)	-	2,279	-	20,261	-	6,681	29,221
Loans and advances to customers, net	86,553	133,841	606,081	825,427	457,846	-	2,109,748
Other financial assets	-	-	-	-	-	4,743	4,743
Total financial assets	**493,017**	**165,454**	**606,081**	**845,688**	**457,846**	**294,333**	**2,862,419**
Liabilities							
Liabilities to banks	-	-	7,114	-	-	642	7,756
Liabilities to customers	835,418	30,352	275,391	33,814	-	1,234,052	2,409,027
Liabilities to financial institutions	-	28,443	53,129	106,147	9,779	-	197,498
Lease liabilities	79	157	607	2,091	884	-	3,818
Derivative financial liabilities	326	-	-	-	-	-	326
Other financial liabilities	-	-	-	-	-	2,418	2,418
Total financial liabilities	**835,823**	**58,952**	**336,241**	**142,052**	**10,663**	**1,237,112**	**2,620,843**
Interest sensitivity gap	**(342,806)**	**106,502**	**269,840**	**703,636**	**447,183**	**(942,779)**	**241,576**

As of 31 December 2019	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and central bank balances	38,450	-	-	-	-	244,506	282,956
Loans and advances to banks	279,477	41,072	-	-	-	4,838	325,387
Investment securities (FVOCI)	7,961	5,070	-	2,026	-	6,440	21,497
Loans and advances to customers, net	74,524	130,308	575,296	717,056	312,898	-	1,810,082
Other financial assets	-	-	-	-	-	5,456	5,456
Total financial assets	**400,412**	**176,450**	**575,296**	**719,082**	**312,898**	**261,240**	**2,445,378**
Liabilities							
Liabilities to banks	16	9,780	17,419	-	-	419	27,634
Liabilities to customers	834,759	67,396	305,233	22,162	-	822,449	2,051,999
Liabilities to financial institutions	-	28,682	7,805	108,967	-	-	145,454
Lease liabilities	86	173	761	2,470	784	-	4,274
Derivative financial liabilities	305	-	-	-	-	-	305
Other financial liabilities	-	-	-	-	-	4,024	4,024
Total financial liabilities	**835,166**	**106,031**	**331,218**	**133,599**	**784**	**826,892**	**2,233,690**
Interest sensitivity gap	**(434,754)**	**70,419**	**244,078**	**585,483**	**312,114**	**(565,652)**	**211,688**

4 Risk management (continued)

e Market risk (continued)

In relation to the interest rate risk management, the group assumes a parallel shift of the interest rate curve. For EUR and USD the interest rate shock is ± 200 basis points, whereas for domestic currencies the magnitude of the shock is derived on the basis of a historical analysis, with a minimum interest rate shock set at ± 200 basis points. Saving accounts are included in the gap analyses according to their expected repricing maturities. These maturities are derived from a group-wide analysis of historical developments. Limits are set in relation to regulatory capital (non-netted in each case) for the economic value impact when simulating a simultaneous detrimental (upward or downward) interest rate shock across all currencies as well as for the P&L effect.

The potential economic value impact when simulating a simultaneous detrimental (upward or downward) interest rate shock across all currencies must not exceed 15% of the group's capital, unless approved by the ProCredit Group Risk Management Committee; the early warning indicator for each currency is set at 10%.

A second key indicator measures the potential impact of interest rate shocks on the expected earnings of the group (P&L effect) over a period of twelve months. This risk measure indicates how the consolidated statement of profit or loss may be influenced by interest rate risk under a short-term perspective. An upper limit of 10% of the group's CRR capital is set for the non-netted, total 12 months interest earnings impact and an early warning indicator is set above 5% of the group's CRR capital. Whenever the early warning indictor is reached, the group's risk management department must analyse the situation and explain it to the group's ALCO or General Risk Committee. If deemed necessary, appropriate measures must be taken.

It is expected, that in 2021 ProCredit Bank will implement a modified methodology for calculation of the interest rate risk. The economic value impact indicator (EVI) calculations should be based on a new model with specific requirements and predefined EBA scenarios from the Guideline on the Management of Interest Rate Risks in the Banking Book (EBA/GL/2018/02).

Currency	31 Dec 2020		31 Dec 2019	
	Economic value impact	12 month P&L effect	Economic value impact	Economic value impact
BGN	(2,624)	(3,154)	2,118	(529)
EUR	(3,249)	(1,978)	(335)	(5,078)
USD	(122)	(907)	(104)	(654)
Total absolute amount	**5,995**	**6,039**	**2,557**	**6,261**

The group exposure to interest rate risk is quantified and analysed quarterly in the context of the risk bearing capacity calculation.

f Liquidity and funding risk

Liquidity and funding risk addresses the ProCredit group's short- and long-term ability to meet its financial obligations in a complete and timely manner, even in stress situations.

The framework for managing ProCredit Bank's liquidity and funding risk is approved by the Management of the group and is specified in the respective policies and standards. These define liquidity risk, specify the responsibilities at bank level, and establish minimum requirements for managing, monitoring and reporting. The ALCO is responsible for all key operational decisions regarding liquidity management. Selected liquidity risk indicators are reported and presented each month in detail to the ProCredit Group Risk Management Committee.

4 Risk management (continued)

f Liquidity and funding risk (continued)

The group assesses short-term liquidity risk on the basis of a liquidity gap analysis, among other instruments, and the group monitors this risk using numerous indicators. These include both a 30-day liquidity indicator (Sufficient Liquidity Indicator, SLI) and a survival period, as well as the minimum liquidity ratio stipulated by CRR (Liquidity Coverage Ratio, LCR). The SLI measures whether institutions have sufficient liquidity in relation to the expected inflows and outflows of funds in the next 30 days. The survival period is the timeframe during which the group is able to fulfil all payment obligations, despite reduced liquidity inflows and elevated outflows. The calculation applies outflows derived from historical analyses of deposit movements in the group. The defined minimum survival period limits is at least 90 days on total currency level. LCR indicates whether the group has sufficient liquidity to cover the net outflows expected in the next 30 days, even in the event of a specified severe economic shock scenario. Early warning indicators are also defined and monitored.

Market-related, institution-specific (idiosyncratic), combined and longer-term stress tests are conducted monthly and ad hoc to make sure that the group keeps sufficient liquid funds to meet its obligations, even in difficult times. As liquidity reserve, ProCredit Bank Bulgaria has a stand-by agreement with ProCredit Holding in case of need of urgent funding. Moreover, the group has a contingency plan. If unexpected circumstances arise and an individual bank from ProCredit Group proves not to have sufficient liquid funds, the ProCredit group has also developed a liquidity contingency plan and ProCredit Holding would step in as a “lender of last resort”. ProCredit Holding keeps an adequate liquidity reserve available for this purpose. The amount of the liquidity reserve is determined on the basis of group stress tests and monitored on a regular basis.

The liquidity of the group is managed on a daily basis by the respective responsible units (i.e. treasury), based on the ALCO-approved cash flow projections, and is monitored by risk management and ALCO.

A working group on a ProCredit group level was established in March 2020 to monitor the impact of the COVID-19 pandemic on the group's liquidity position and to take appropriate action in a timely manner. Developments were monitored and assessed on the basis of daily liquidity risk indicators, regular communication between ProCredit Holding and the subsidiary banks, and monitoring of regulatory measures and market trends.

Despite considerable uncertainty regarding market liquidity and possible deposit outflows, especially at the beginning of the global pandemic outbreak, the liquidity situation of the group remained stable. In fact, it showed improvement, mainly due to an increase in customer deposits in as well as new funding agreements with IFIs. This can be seen as evidence of the high level of confidence in ProCredit Bank, even in stress situations, and it demonstrates the group’s strong profile in its markets. The impact of customer loan repayment moratoria on the liquidity position was forecast accurately and absorbed accordingly. The group had sufficient liquidity available at all times in 2020 to meet all financial obligations in a timely manner.

4 Risk management (continued)

f Liquidity and funding risk (continued)

The following table shows the undiscounted cash flows of the financial assets and financial liabilities of the group according to their remaining contractual maturities.

Maturity analysis for financial assets and financial liabilities

As of 31 December 2020	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Gross nominal amount	Total carrying amount
Assets							
Cash and central bank balances	595,864	-	-	-	-	595,864	595,741
Loans and advances to banks	93,601	29,359	-	-	-	122,960	122,966
Investment securities (FVOCI)	-	2,370	-	20,824	6,681	29,875	29,221
Loans and advances to customers, net	82,468	138,876	647,475	945,744	523,293	2,337,856	2,109,748
Other financial assets	4,743	-	-	-	-	4,743	4,743
Total financial assets	**776,676**	**170,605**	**647,475**	**966,568**	**529,974**	**3,091,298**	**2,862,419**
Liabilities							
Liabilities to banks	682	108	488	6,822	-	8,100	7,756
Liabilities to customers	1,967,402	49,493	359,120	34,213	-	2,410,228	2,409,027
Liabilities to financial institutions	2	10,703	57,752	120,450	10,462	199,369	197,498
Lease liabilities	79	157	607	2,091	884	3,818	3,818
Derivative financial liabilities	-	-	-	-	326	326	326
Other financial liabilities	2,418	-	-	-	-	2,418	2,418
Total financial liabilities	**1,970,583**	**60,461**	**417,967**	**163,576**	**11,672**	**2,624,259**	**2,620,843**
Liquidity gap	**(1,193,907)**	**110,144**	**229,508**	**802,992**	**518,302**	**467,039**	**241,576**
Contingent liabilities and commitments	**446,479**	**-**	**-**	**-**	**-**	**446,479**	**446,479**

As of 31 December 2019	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Gross nominal amount	Total carrying amount
Assets							
Cash and central bank balances	283,064	-	-	-	-	283,064	282,956
Loans and advances to banks	284,295	41,041	-	-	-	325,336	325,387
Investment securities (FVOCI)	7,971	5,085	29	2,055	6,441	21,581	21,497
Loans and advances to customers, net	69,367	133,237	611,244	815,785	350,310	1,979,943	1,810,082
Other financial assets	5,456	-	-	-	-	5,456	5,456
Total financial assets	**650,153**	**179,363**	**611,273**	**817,840**	**356,751**	**2,615,380**	**2,445,378**
Liabilities							
Liabilities to banks	892	9,947	10,297	7,472	-	28,608	27,634
Liabilities to customers	1,653,719	68,487	309,808	22,639	-	2,054,653	2,051,999
Liabilities to financial institutions	-	3,623	14,504	128,425	1,550	148,102	145,454
Lease liabilities	86	173	761	2,470	784	4,274	4,274
Derivative financial liabilities	-	-	-	-	305	305	305
Other financial liabilities	4,024	-	-	-	-	4,024	4,024
Total financial liabilities	**1,658,721**	**82,230**	**335,370**	**161,006**	**2,639**	**2,239,966**	**2,233,690**
Liquidity gap	**(1,008,568)**	**97,133**	**275,903**	**656,834**	**354,112**	**375,414**	**211,688**
Contingent liabilities and commitments	**320,562**	**-**	**-**	**-**	**-**	**320,562**	**320,562**

Liabilities to customers with maturity up to 1 month include all sight and saving deposits amounting to BGN 1,907,002 thousand (2019: BGN 1,615,580 thousand). The group's management expects that these funds will not be withdrawn at the same time or within the period in which they are reflected. Additionally, an analysis of depositors' behaviour revealed that 94% of term deposits at maturity date were not withdrawn but automatically renegotiated under the similar terms and conditions.

4 Risk management (continued)

f Liquidity and funding risk (continued)

Funding risk is the danger that additional funding cannot be obtained, or can only be obtained at higher costs. It therefore covers parts of the non-systemic effect of interest rate changes. This risk is mitigated by the fact that the group finances its lending operations primarily through retail customer deposits; nonetheless, its deposit-taking operations focus on the target group of business clients and private clients/savers, with whom the group establishes strong relationships. These are supplemented by long-term credit lines from international financial institutions (IFIs). In 2020 no funds from the interbank market have been attracted. In addition, the group primarily issues instalment loans with monthly repayments. The funding of the group has proven to be resilient even in times of stress.

The group manages, measures and limits funding risk through business planning, maturity gap analysis and several indicators. The funding needs of the group, identified in the business planning process, are monitored and regularly reviewed. ALCO monitors the progress of all individually significant transactions with external funding providers, especially international financial institutions. ProCredit Holding and the ProCredit Bank in Germany also offer bridge financing in the event that a funding project is delayed. Key indicator for limiting funding risk is the deposit concentration indicator which should not exceed 7% and has a set reporting trigger of 5.5% (it stood at 3% as of end 2020). Two more indicators additionally restrict the level of funding from the interbank market to a low level.

g Operational risk management

In line with CRR, the group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This definition includes in particular fraud risk, IT risk, legal risk, reputational risk and outsourcing risk. The principles set forth in the group operational risk management policies are in compliance with the requirements for the standardised approach for operational risk pursuant to CRR.

The group has an assigned operational risk management role to ensure the effective implementation of the operational and fraud risk management framework within the institution. In addition, the Operational Risk Management Committee (“ORAC”) serves as decision-making body for operational risk matters. A centralised and decentralised reporting procedure ensures that the Management as well as other members of the ORAC receive regular comprehensive reports on operational risks to serve as a basis for their decisions.

The aim of operational risk management is to detect risks at an early stage and to avoid recurrence. The main tools utilised to manage operational risks are the group-wide Risk Event Database (RED), the Annual Risk Assessments and Scenario analysis, established Key Risk Indicators (KRI) and the analysis of all new services and processes in a structured procedure, the New Risk Approval (NRA) process.

The Risk Event Database was developed to ensure that all operational risk events identified in the group are documented, analysed and communicated effectively. All ProCredit banks and ProCredit Holding document risk events using the provided framework, which ensures that adequate attention is paid to the implementation of necessary corrective or preventive measures for reducing or avoiding operational and fraud risk.

In contrast to the ex-post analysis of risk events as recorded in the Risk Event Database, annual risk assessments are systematically performed in order to identify and evaluate key risks and assess the adequacy of the control processes. These two tools complement each other and provide an overall picture of the operational risk profile for the group.

4 Risk management (continued)

g Operational risk management (continued)

Risk indicators (including early warning) are also used to identify elevated fraud risk in specific areas of banking operations. These indicators are analysed regularly and where needed preventive measures are agreed on.

To complete the management of operational risk, all new products need to be analysed to identify and manage potential risks before implementation (NRA process).

In order to limit IT risks, the group has defined standards for IT infrastructure, business continuity and information security. Regular controls of information security and business continuity are part of existing processes and procedures. The group carries out a classification of the information assets and conduct an annual risk assessment on the critical information assets. The business continuity framework implemented in the group ensures that these risks are understood by all members of staff that critical processes are identified and that resources are allocated to restore operations, in line with the prioritisation of processes.

The group's digital approach to all routine banking operations has enabled the institution to quickly implement home-office models to protect the health and safety of customers and employees against the context of the COVID-19 pandemic.

A key element of the risk assessment is the evaluation of outsourcing. The group is following the latest EBA Guidelines (EBA/GL/2019/02) regarding outsourcing of services. The group maintains a register of all outsourced activities and conducts evaluation of risk on each outsourced process and well as on the insourcing company. Key performance indicators are tracked for the quality of services of the outsourced activities, and on annual basis is performed monitoring of all of them.

h Risks arising from money laundering, terrorist financing and other acts punishable by law

Responsible behaviour is an integral part of the group's values-oriented business model. This is reflected in the Code of Conduct for the group's employees as well as in the contents of the introductory courses for new staff and in the curricula of the ProCredit academies. The prevention of money laundering, terrorist financing and fraud is a key component of self-perception. This is illustrated by the criteria used to select customers and by the few cases of internal fraud within the group.

The group is in compliance with all regulatory requirements concerning the prevention of money laundering and terrorist financing. Moreover, the group has implemented the ProCredit group-wide guidelines on the prevention of money laundering and terrorist financing, which in many respects are stricter than the legal requirements prevailing in the individual countries of operation of the ProCredit group. As the ProCredit group is supervised by the German financial supervisory authorities, the group implements the requirements stipulated by the German Money Laundering Act, as well as the requirements applicable at the European level.

The group's ethical responsibility is documented in the form of our Code of Conduct and Exclusion List, which contain the core rules and regulations that all employees of ProCredit banks are obliged to observe. The group-wide guidelines on the prevention of money laundering, terrorist financing and fraudulent activities, together with their subordinate directives, specify how these basic rules are to be implemented in practice.

4 Risk management (continued)

h Risks arising from money laundering, terrorist financing and other acts punishable by law (continued)

Besides identifying all contracting parties and clarifying the purpose of the business relationship, the collection of client data always also entails identifying the beneficial owner of all funds that are managed in customer accounts. Beneficial owners are natural persons who substantially profit from a business structure, even if they are not personally in evidence during the business relationship with a client. The group identifies and screens, without exception, all persons who could prove to be beneficial owners.

ProCredit Bank uses specialized software to identify payments that give cause for suspicion of money laundering, terrorist financing or fraud. Anti-money laundering officers work closely with the responsible law enforcement authorities and report regularly to the ProCredit Group Anti-Money Laundering (AML) Officer at ProCredit Holding, who in turn is the main contact for supervisory and law enforcement authorities in Germany and other countries.

i Capital management

Capital management in the group is guided by the principle that the institution shall not at any time incur greater risks than it is able to bear. This principle is monitored using different indicators for which early warning indicators and limits have been established. The indicators include, in addition to regulatory standards in the country an internal capital adequacy assessment process (ICAAP).

The capital management framework of the group has the following objectives:

- Compliance with regulatory capital requirements.
- Ensuring internal capital adequacy.
- Compliance with the internally defined capital requirements and creation of a sufficient capital buffer to ensure that the group is able to act.
- Support for the group in implementing the plans for continued growth.

The capital adequacy is monitored using different indicators for which early warning indicators and limits have been established. The indicators include capital adequacy calculation in accordance with CRR requirements, a Tier 1 leverage ratio in accordance with CRR and a calculation of capitalisation in the economic perspective. ProCredit Bank is subject to the requirements imposed by the respective national supervisory authorities. The capital management of ProCredit bank is governed by specific policies and monitored on a monthly basis by the Management.

Capitalisation in the economic perspective

Ensuring that the group maintains sufficient capitalisation in the economic perspective at all times is a key element of the group risk management and capital management processes. In the context of the economic perspective, the capital needs arising from the group’s specific risk profile are compared with the available capital resources to assure that the institution’s capitalisation is sufficient at all times. Capitalisation in the economic perspective was adequate at all times during the course of 2020.

The methods the group uses to calculate the amount of economic capital required to cover the different risks the group is exposed to are based on statistical models, provided that appropriate models are available. The guiding principle for the group’s internal capital adequacy assessment is that the group is able to withstand strong shock scenarios. Compared to the previous year, there were no significant adjustments to the risk models. As the datasets include various periods of stress, there was no need to adjust risk modelling to adequately reflect the impact of the COVID-19 pandemic.

4 Risk management (continued)

i Capital management (continued)

When calculating the economic capital required to cover risk exposures the group applies a one-year risk assessment horizon. The included material risks and the limits set for each risk reflect the specific risk profile of the group and are based on the annually conducted risk inventory. The following risks are included in the internal capital adequacy calculation:

Material risk	Quantification/treatment
Credit risk, comprising: • customer credit risk • counterparty risk	Portfolio model based on a Monte Carlo simulation (VaR)
Foreign currency risk	Monte Carlo simulation (VaR)
Interest rate risk	Historical simulation (VaR)
Operational risk	Quantitative model based on a Monte Carlo simulation

Capitalisation in the normative perspective

Since 1 January 2014, the Basel III requirements, implemented in Bulgaria through Capital Requirements Directive IV and Regulation 575/2013 CRR, have been binding for the group. As per Art. 92 of Regulation 575/2013, the minimum capital requirement for the overall capital adequacy ratio is 8% of the total risk exposure. Added to this requirement are the capital buffers, which the BNB demands that the groups maintain as per Regulation No. 8 on the capital buffers of banks. The buffers and the respective requirement towards the bank are as follows:

- Capital conservation buffer in the form of Common Equity Tier 1 equal to 2.5% of total risk exposure amount;
- Systemic risk buffer in the form of Common Equity Tier 1 capital equal to 3.0% of the total risk exposures in Bulgaria (requirement as of 31 Dec 2019);
- Countercyclical capital buffer in the form of Common Equity Tier 1 capital equal to 0.5% of the credit risk exposures in Bulgaria.

After adding the capital buffers to the capital requirements, the minimum requirement amounts to 13.4% as of 31.12.2020 according to the regulatory framework applicable for ProCredit Bank. The group's internal capital management policy sets a stricter limit for the total capital adequacy ratio with a reporting trigger of 15.0% and a limit of 14.5%.

During the reporting period, all regulatory capital requirements were met at all times.

When defining the capital requirements for the purposes of calculation of capital adequacy as per Regulation 575/2013, the group adheres to the following:

- Capital requirements for credit risk and counterparty risk – Standardised approach as per Part Three, Section II, Chapter 2 of Regulation 575/2013 is used for exposure classes. Credit risk mitigation techniques are applied in the calculation of capital requirements for credit risk. Risk amounts arising from credit risk are reduced in part through the recognition of guarantees from the European Investment Fund (EIF), cash collaterals and mortgages on immovable property.
- Capital requirements for operational risk – Standardized approach as per part Three, Section III, Chapter 3 of Regulation 575/2013. Compared to the regulatory capital requirements for operational risk, which amount to BGN 17.2 million, the average annual loss according to data recorded in the Risk Event Database in the last three years amounted to BGN 72 thousand.

4 Risk management (continued)

i Capital management (continued)

As ProCredit Bank is a non-trading book institution, which moreover does not engage in transactions involving commodities, foreign currency risk is the only market risk to be considered. However, ProCredit Bank does not calculate a capital requirement for currency risk, as the overall net foreign currency position (excluding EUR) is virtually kept very close to 0% of the capital (as of 31.12.2020 the value was 0.04%, which is less than minimum threshold of 2% according to Regulation 575/2013).

The regulatory capital ratios are calculated by dividing the capital by the amount of the risk-weighted assets; when calculating each ratio, only the respective capital components are considered (of the Common Equity Tier 1 capital, of the Tier 1 capital and of the overall capital adequacy). The group's regulatory capital ratios are presented below:

Regulatory capital	**2020**	**2019**
Common Equity Tier 1 capital	221,259	200,427
Total regulatory capital	**221,259**	**200,427**
Risk Weighted Assets		
Risk Weighted Assets for Credit Risk	1,206,514	1,116,328
Risk Weighted Assets for Operational Risk	127,730	126,635
Total Risk Weighted Assets	**1,334,244**	**1,242,963**
Capital ratios		
Common Equity Tier 1 capital	16.6%	16.1%
Tier 1 capital	16.6%	16.1%
Total capital	16.6%	16.1%

The developments that mostly impacted the capital adequacy in the normative perspective in 2020 were as follows:

- ProCredit Bank increased its subscribed capital by BGN 19,558 thousand in December 2019 which for regulatory purposes was recognised as a Common Equity Tier 1 capital by the BNB in March 2020.
- Introduction of temporary treatment of government debt issued in the currency of another Member State (Article 500a of Regulation 575/2013), according to which exposures to the BNB and Bulgaria denominated in euro receive risk weight of 0% (before the change the risk weight was 50% from 01.01.2020). The change became in effect from 27 June 2020 under Regulation (EU) 2020/873.
- Earlier entry into force of an increased support rate for small and medium-sized enterprises (SMEs). The change became in effect from 27 June 2020 under Regulation (EU) 2020/873.
- Increase in the customer loan portfolio.

The Common Equity Tier 1 capital of the group is composed of subscribed capital and reserves. Deductions are made for intangible assets, additional valuation adjustments for balance sheet items recognised at market value, investment in non-financial subsidiary undertakings and other deductions related to credit risk corrections.

The total volume of risk-weighted assets in the group increased by BGN 91 million in 2020. This growth was driven from the increase of the customer loan portfolio.

4 Risk management (continued)

j Internal control system and risk management system in the financial reporting process

The internal control system and risk management system in ProCredit Bank's financial reporting process comprises the principles, procedures and measures for the effective, cost-efficient and rule-compliant application of financial reporting requirements. The main risks in due and proper financial reporting are the improper representation of financial position and financial performance or delayed publication. The internal control system in the financial reporting process is subject to the general principles of the group's risk management approach and is thus an integral component of the risk management system.

Primary responsibility for the internal control system and risk management system in the financial reporting process, and thus for its effectiveness and monitoring, lies with the Management. The Management establishes the general principles and defines areas of responsibility. Finance function implements the requirements of the Management and defines the specific parameters within the framework provided. Operational Risk Management identifies and assesses risks on a regular basis. Risk assessment comprises an evaluation of operational and fraud risks as well as a review of the effectiveness of the respective controls. If necessary, appropriate measures are defined and implemented in order to limit the risks identified.

The financial reporting process aims to standardise, to the greatest extent possible, the application of the main international financial reporting standards and related processes. The Procredit group Accounting & Taxes function establishes the accounting manual, which applies throughout the group, and defines the material processes in the respective policies, taking account for the principle of dual control. The processes for report preparation are largely automated and the functionalities of the key IT applications have been defined on a centralised basis. IT permissions are defined and regularly monitored in accordance with the respective policies.

The financial reporting process is supported by a multi-step control system. This ensures compliance with legal requirements and the implementation of internal policies. The units in the group prepare information relevant for financial reporting with the support of IT applications which are uniform throughout the group. The information packages from units in the group are reviewed, taking account for the dual control principle, and then subject to standardised quality checks.

In addition, Internal Audit supports the Management and the Supervisory Board in their control functions through independent and objective risk-oriented audits. Regular audits are performed on the financial reporting processes to determine whether they are effective, orderly and cost efficient.

5 Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values the financial assets and liabilities in the group's statement of financial position, distributed in the respective hierarchical levels in accordance to the methods used for determining of the fair value.

As of 31 December 2020				**Fair value hierarchy**		
Financial assets	**Category***	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Cash	AC	33,337	33,337	33,337	-	-
Central bank balances	AC	562,404	562,527	-	562,527	-
Loans and advances to banks	AC	122,966	122,969	-	122,969	-
Investment securities (Bonds)	FVOCI	22,540	22,540	22,540	-	-
Investment securities (Shares)	FVOCI	6,681	6,681	5,692	-	989
Loans and advances to customers, net	AC	2,109,748	2,184,147	-	-	2,184,147
Other financial assets	AC	4,743	4,743	-	4,743	-
Total		**2,862,419**	**2,936,944**	**61,569**	**690,239**	**2,185,136**

Financial liabilities	**Category***	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Liabilities to banks	AC	7,756	7,587	-	642	6,945
Liabilities to customers	AC	2,409,027	2,409,460	-	1,946,652	462,808
Liabilities to institutions	AC	197,498	190,619	-	-	190,619
Lease liabilities	AC	3,818	3,818	-	3,818	-
Derivative financial liabilities	FV	326	326	-	326	-
Other financial liabilities	AC	2,418	2,418	-	2,418	-
Total		**2,620,843**	**2,614,228**	**-**	**1,953,856**	**660,372**

As of 31 December 2019				**Fair value hierarchy**		
Financial assets	**Category***	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Cash	AC	34,574	34,574	34,574	-	-
Central bank balances	AC	248,382	248,490	-	248,490	-
Loans and advances to banks	AC	325,387	325,388	-	325,388	-
Investment securities (Bonds)	FVOCI	15,056	15,056	15,056	-	-
Investment securities (Shares)	FVOCI	6,441	6,441	5,452	-	989
Loans and advances to customers, net	AC	1,810,082	1,873,169	-	-	1,873,169
Other financial assets	AC	5,456	5,456	-	5,456	-
Total		**2,445,378**	**2,508,574**	**55,082**	**579,334**	**1,874,158**

Financial liabilities	**Category***	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Liabilities to banks	AC	27,634	27,656	-	434	27,222
Liabilities to customers	AC	2,051,999	2,051,877	-	1,633,072	418,805
Liabilities to institutions	AC	145,454	143,724	-	-	143,724
Lease liabilities	AC	4,274	4,274	-	4,274	-
Derivative financial liabilities	FV	305	305	-	305	-
Other financial liabilities	AC	4,024	4,024	-	4,024	-
Total		**2,233,690**	**2,231,860**	**-**	**1,642,109**	**589,751**

* categories: FV - At Fair value; AC - Amortised cost; FVOCI - fair value through other comprehensive income

5 Fair values of financial assets and liabilities (continued)

(i) Cash

The fair value of the assets matches their carrying amount.

(ii) Loans and advances to banks

Loans and advances to banks include inter-bank placements. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(iii) Investment securities

The group's portfolio of government securities is carried at fair value using the Level 1 inputs that are quoted market prices (unadjusted) in active markets for identical instruments. A small part of the investment securities includes equity securities where observable market prices are not available (SWIFT and Borika-Bankservice shares).

(iv) Loans and advances to customers

Loans and advances are net of impairment allowance. The fair value of loans and advances represents the discounted amount of estimated future cash flows using the interest rates currently offered by the group for similar risk and maturity. Difference in fair values and carrying amounts represents the changes in the current market interest rates. Fair value incorporates expected future losses, while amortised cost and related impairment include only expected losses at the statement of financial position date.

(v) Financial liabilities

The fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for similar risk and maturity.

If observable market rates are not available to determine the fair value of financial liabilities measured at amortised cost, ProCredit Group Treasury rates are used as an input for a discounted cash flow model. These are presented as level 3 input factors. ProCredit Group Treasury rates are determined taking into consideration the cost of capital depending on currencies and maturities plus a risk margin that depends on an internal risk rating for each institution within the ProCredit group (incl. ProCredit Bank (Bulgaria) EAD). Internal rates are regularly compared to those applied for third party transactions and are therefore in compliance with an orderly transaction between market participants at the measurement date under current market conditions.

6 Net interest income

	2020	2019
Interest income calculated using the effective interest rate method		
Loans and advances to customers	65,241	60,946
Total interest income calculated using the effective interest rate method	**65,241**	**60,946**
Interest and similar expenses		
Liabilities to customers	2,431	4,053
Liabilities to banks and international financial institutions	1,508	2,003
Loans and advances to banks	1,089	328
Lease liabilities	97	128
Investment securities	50	33
Other interest expenses	94	100
Total interest and similar expenses	**5,269**	**6,645**
Net interest income	**59,972**	**54,301**

Included in “Interest income from loans and advances to customers” for 2020 is BGN 1,496 thousand of accrued interest on impaired loans (2019: BGN 1,660 thousand).

7 Loss allowance/(reversal of loss allowance)

	2020	2019
Increase of impairment charge	19,434	18,386
Release of impairment charge	(13,241)	(18,487)
Recovery of written-off loans	(849)	(1,213)
Direct write-offs	112	423
Modification	355	427
Loss allowance/(reversal of loss allowance)	**5,811**	**(464)**

8 Net fee and commission income

	2020	2019
Fee and commission income		
Opening and account maintenance fees	9,962	11,114
Loan related fees	4,820	4,292
Payment services	4,290	5,179
Debit/credit cards	3,133	3,700
Cash operations on machines	2,079	1,820
Insurance fees	925	945
Loan management	315	473
Others	225	265
Total fee and commission income from contracts with customers	**25,749**	**27,788**
Letters of credit and guarantees	698	531
Total fee and commission income	**26,447**	**28,319**

8 Net fee and commission income (continued)

Fee and commission expense	2020	2019
Guarantees for EIF programs	1,277	1,102
Debit/credit cards	886	1,075
Correspondent accounts	659	705
Others	47	92
Total fee and commission expense	**2,869**	**2,974**
Net fee and commission income	**23,578**	**25,345**

Loan related fees include: fees for changes in loan conditions; prepayment fees; commitment fees; loan application fees; collateral appraisal fees.

9 Result from foreign exchange transactions

	2020	2019
Currency transactions	8,551	8,836
Net gains/(losses) from currency revaluation	392	(13)
Total result from foreign exchange transactions	**8,943**	**8,823**

10 Other income/ Other expenses

	2020	2019
a) Other income		
Income from non-financial services	817	743
Reversal of impairment of repossessed property	382	573
Income from sale of repossessed property	265	21
Dividends from investment securities	66	29
Gain from sale of own property	-	50
Other operating income	340	101
Total other income	**1,870**	**1,517**
b) Other expenses		
Other expenses related to repossessed property	162	151
Fee for keeping of funds of closed inactive accounts	74	382
Result from derivative financial instruments	20	125
Loss from sale of own property	5	-
Total other expenses	**261**	**658**

“Dividends from investment securities” includes the dividend received by entities in which the group has non-controlling interest.

11 Personnel expenses

	2020	2019
Salary expenses	17,096	15,906
Pension costs	1,248	1,139
Other social security costs	1,390	1,313
Other employee costs	56	71
Total personnel expenses	**19,790**	**18,429**

12 Administrative expenses

	2020	2019
Payments to Deposit Insurance Fund and Bank Restructuring Fund	6,864	5,658
Depreciation fixed and intangible assets (Note 18)	6,011	6,310
Non-income tax	3,855	3,154
Consultancy, legal and audit services	3,365	2,949
Communication and transport costs	3,067	3,069
Other professional services	2,199	2,454
IT expenses	1,078	1,224
Training	1,022	1,919
Maintenance and utilities	940	912
Security services	783	777
Marketing, advertising and representation	381	1,552
Operating lease rentals	19	72
Other administrative expenses	1,014	900
Total administrative expenses	**30,598**	**30,950**

The amounts accrued in 2020 for the services provided by the registered auditors for statutory joint independent financial audit are as follows: for KPMG Audit OOD: BGN 106 thousand excluding VAT; for Baker Tilly Klitou and Partners OOD: BGN 25.4 thousand excluding VAT. In 2020 the group was charged with amounts for other non-statutory audit services provided by KPMG Audit OOD at a total amount of BGN 22.5 thousand excluding VAT and by Baker Tilly Klitou and Partners OOD: BGN 1.0 thousand excluding VAT.

Other non-statutory audit services performed by KPMG Audit OOD are as follows:

- Audit of the special purpose financial information of ProCredit Bulgaria EAD prepared as of and for the year ended 31 December 2020 in accordance with the accounting instructions of ProCredit Holding AG & Co. KGaA to the components subject to consolidation;
- Agreed-upon procedures in relation to the bank’s internal control environment in accordance with the requirements of article 76, par. 7, p. 1 of the Law of the credit institutions and article 5 of Ordinance 14 of the Bulgarian National Bank for 2020.

Other non-statutory audit services performed by Baker Tilly Klitou and Partners OOD are as follows:

- Agreed-upon procedures in relation to the bank’s internal control environment in accordance with the requirements of article 76, par. 7, p. 1 of the Law of the credit institutions and article 5 of Ordinance 14 of the Bulgarian National Bank for 2020.

For 2019 the accrued amount for the provided audit and non-audit services by the external auditors were BGN 131 thousand excluding VAT.

13 Income tax expense

	2020	2019
Current income tax	3,740	3,974
Deferred income tax (Note 19)	255	237
Total income tax expenses	**3,995**	**4,211**

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	2020	2019
Profit before income tax	**37,903**	**40,413**
Theoretical tax at a tax rate of 10 % (2019: 10 %)	3,790	4,041
Tax effect from non-taxable income	(189)	(211)
Tax effect of expenses not deductible for tax purposes	394	381
Total income tax expense	**3,995**	**4,211**

The effective tax rate for 2020 is: 10.5% (2019: 10.4%).

14 Cash and central bank balances

	2020	2019
Cash in hand	33,337	34,574
Central bank balances (excl. mandatory reserve)	341,706	59,594
Loss allowances for cash and central bank balances	(123)	(108)
Mandatory reserve deposits	220,821	188,896
Cash and central bank balances	**595,741**	**282,956**
Loans and advances to banks with a maturity up to 3 months	122,938	325,389
Minimum reserve with central bank, which does not qualify as cash for the statement of cash flows	(220,821)	(188,896)
Cash and cash equivalents for the statement of cash flows	**497,858**	**419,449**

The following table discloses the central bank balances by three stages for the purpose of expected credit losses measurement as of 31 December 2020.

Central bank balances

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 Jan 2019	**179,630**	**-**	**-**	**-**	**179,630**
Derecognition	-	-	-	-	**-**
Increase in placements	68,860	-	-	-	**68,860**
As at 31 Dec 2019	**248,490**	**-**	**-**	**-**	**248,490**
Derecognition	-	-	-	-	**-**
Increase in placements	314,037	-	-	-	**314,037**
As at 31 Dec 2020	**562,527**	**-**	**-**	**-**	**562,527**

Loss allowances for cash and central bank balances

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 Jan 2019	**(108)**	**-**	**-**	**-**	**(108)**
Release due to derecognition	-	-	-	-	**-**
(Increase)/Decrease in credit risk	-	-	-	-	**-**
As at 31 Dec 2019	**(108)**	**-**	**-**	**-**	**(108)**
Release due to derecognition	-	-	-	-	**-**
(Increase)/Decrease in credit risk	(15)	-	-	-	**(15)**
As at 31 Dec 2020	**(123)**	**-**	**-**	**-**	**(123)**

15 Loans and advances to banks

	2020	2019
Current accounts	79,276	250,142
Accounts up to three months	43,693	75,246
Loss allowances for loans and advances to banks	(3)	(1)
Total loans and advances to banks	**122,966**	**325,387**

The following table discloses the loans and advances to banks balances by three stages for the purpose of expected credit losses measurement as of 31 December 2020.

15 Loans and advances to banks (continued)

Loans and advances to banks

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 Jan 2019	**268,484**	**-**	**-**	**-**	**268,484**
Derecognition	9,700	-	-	-	**9,700**
Increase/(Decrease) in placements	47,204	-	-	-	**47,204**
Gross outstanding amount as at 31 Dec 2019	**325,388**	**-**	**-**	**-**	**325,388**
New financial assets originated	122,969	-	-	-	**122,969**
Derecognition	(325,388)	-	-	-	**(325,388)**
As at 31 Dec 2020	**122,969**	**-**	**-**	**-**	**122,969**

Loss allowances for loans and advances to banks

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 Jan 2019	**(15)**	**-**	**-**	**-**	**(15)**
Release due to derecognition	14	-	-	-	**14**
Balance at 31 Dec 2019	**(1)**	**-**	**-**	**-**	**(1)**
New financial assets originated	(3)	-	-	-	**(3)**
Release due to derecognition	1	-	-	-	**1**
As at 31 Dec 2020	**(3)**	**-**	**-**	**-**	**(3)**

16 Investment securities (FVOCI)

	2020	2019
Bulgarian Government debt securities	22,540	15,056
Shares	6,681	6,441
Total investment securities	**29,221**	**21,497**

The shares represent investments in local and foreign financial intermediary institutions.

The following table discloses the debt securities by three stages for the purpose of expected credit losses measurement as of 31 December 2020.

Investment securities

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 Jan 2019	**28,666**	**-**	**-**	**-**	**28,666**
New financial assets originated	(13,189)	-	-	-	**(13,189)**
Derecognition	(421)	-	-	-	**(421)**
Gross outstanding amount as at 31 Dec 2019	**15,056**	**-**	**-**	**-**	**15,056**
New financial assets originated	20,496	-	-	-	**20,496**
Derecognition	(12,844)	-	-	-	**(12,844)**
Other movements	(168)	-	-	-	**(168)**
As at 31 Dec 2020	**22,540**	**-**	**-**	**-**	**22,540**

Loss allowances for investment securities

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 Jan 2019	**(16)**	**-**	**-**	**-**	**(16)**
New financial assets originated					
Release due to derecognition	7	-	-	-	**7**
Increase/Decrease in credit risk	7	-	-	-	**7**
Balance at 31 Dec 2019	**(2)**	**-**	**-**	**-**	**(2)**
New financial assets originated	(11)	-	-	-	**(11)**
(Increase)/Decrease in credit risk	2	-	-	-	**2**
As at 31 Dec 2020	**(11)**	**-**	**-**	**-**	**(11)**

16 Investment securities (FVOCI) (continued)

The movement of the shares are presented in the table below:

	2020	2019
Opening balance	**6,441**	**4,718**
Gains from changes in FV	769	1,638
Foreign currency revaluation	(529)	85
Closing balance	**6,681**	**6,441**

17 Loans and advances to customers, net

	31.12.2020	31.12.2019
Total gross loans and advances	2,148,794	1,845,274
Less provision for impairment	(39,046)	(35,192)
Total loans and advances to customers, net	**2,109,748**	**1,810,082**

The following table discloses the changes in the gross carrying amount and credit loss allowance for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period.

Loans and advances to customers

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 January 2019	**1,557,546**	**31,922**	**46,670**	**940**	**1,637,078**
New financial assets originated	854,112	-	-	-	**854,112**
Modification of contractual cash flows of financial assets	394	(12)	44	-	**426**
Derecognitions	(323,648)	(14,886)	(7,188)	-	**(345,722)**
Write-offs	-	-	(2,559)	-	**(2,559)**
Changes in interest accrual	388	4	538	-	**930**
Changes in the principal and disbursement fee amount	(292,859)	(1,049)	(5,006)	(77)	**(298,991)**
Transfer from Stage 1 to Stage 2	(94,189)	94,189	-	-	**-**
Transfer from Stage 1 to Stage 3	(1,022)	-	1,022	-	**-**
Transfer from Stage 2 to Stage 1	37,532	(37,532)	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(4,300)	4,300	-	**-**
Transfer from Stage 3 to Stage 2	-	2,037	(2,037)	-	**-**
Transfer from Stage 3 to Stage 1	1,326	-	(1,326)	-	**-**
Gross outstanding amount as at 31 Dec 2019	**1,739,580**	**70,373**	**34,458**	**863**	**1,845,274**
New financial assets originated	759,061	-	-	-	**759,061**
Modification of contractual cash flows of financial assets	432	(95)	18	-	**355**
Derecognitions	(196,215)	(13,119)	(2,307)	-	**(211,641)**
Write-offs	-	-	(2,243)	-	**(2,243)**
Changes in interest accrual	780	111	180	-	**1,071**
Changes in the principal and disbursement fee amount	(227,610)	(10,718)	(4,707)	(48)	**(243,083)**
Transfer from Stage 1 to Stage 2	(111,302)	111,302	-	-	**-**
Transfer from Stage 1 to Stage 3	(6,579)	-	6,579	-	**-**
Transfer from Stage 2 to Stage 1	92,749	(92,749)	-	-	**-**
Transfer from Stage 2 to Stage 3	-	(22,115)	22,115	-	**-**
Transfer from Stage 3 to Stage 2	-	1,005	(1,005)	-	**-**
Transfer from Stage 3 to Stage 1	1,199	-	(1,199)	-	**-**
Gross outstanding amount as at 31 Dec 2020	**2,052,095**	**43,995**	**51,889**	**815**	**2,148,794**

17 Loans and advances to customers, net (continued)

Loss allowances for loans and advances to customers

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2019	**(7,394)**	**(4,668)**	**(26,876)**	**(63)**	**(39,001)**
New financial assets originated	(4,483)	-	-	-	**(4,483)**
Release due to derecognition	1,835	2,226	3,643	-	**7,704**
Transfer from Stage 1 to Stage 2	476	(476)	-	-	**-**
Transfer from Stage 1 to Stage 3	5	-	(5)	-	**-**
Transfer from Stage 2 to Stage 1	(280)	280	-	-	**-**
Transfer from Stage 2 to Stage 3	-	430	(430)	-	**-**
Transfer from Stage 3 to Stage 2	-	(231)	231	-	**-**
Transfer from Stage 3 to Stage 1	(31)	-	31	-	**-**
Increase in credit risk	(8,517)	(9,466)	(9,842)	(9)	**(27,834)**
Decrease in credit risk	5,555	9,024	10,111	70	**24,760**
Usage of allowance	-	-	3,662	-	**3,662**
Increase due to restructuring	-	-	-	-	**-**
Decrease due to restructuring	-	-	-	-	**-**
Balance at 31 Dec 2019	**(12,834)**	**(2,881)**	**(19,475)**	**(2)**	**(35,192)**
New financial assets originated	(6,377)	-	-	-	**(6,377)**
Release due to derecognition	862	583	786	-	**2,231**
Transfer from Stage 1 to Stage 2	877	(877)	-	-	**-**
Transfer from Stage 1 to Stage 3	125	-	(125)	-	**-**
Transfer from Stage 2 to Stage 1	(1,049)	1,049	-	-	**-**
Transfer from Stage 2 to Stage 3	-	3,182	(3,182)	-	**-**
Transfer from Stage 3 to Stage 2	-	(76)	76	-	**-**
Transfer from Stage 3 to Stage 1	(15)	-	15	-	**-**
Increase in credit risk	(7,320)	(5,510)	(8,777)	(24)	**(21,631)**
Decrease in credit risk	11,584	2,711	5,365	-	**19,660**
Usage of allowance	-	-	2,260	-	**2,260**
Increase due to restructuring	(2)	(9)	(25)	-	**(36)**
Decrease due to restructuring	5	2	32	-	**39**
As at 31 Dec 2020	**(14,144)**	**(1,826)**	**(23,050)**	**(26)**	**(39,046)**

The following tables shows the share of customer loan portfolio which is subject to moratoriums due to COVID-19 or which has been restructured due to COVID-19. A moratorium does not automatically result in a transfer to another stage.

	31 December 2020				
Loans and advances to customers (gross outstanding amount)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
currently under moratorium:	**5,085**	**1,705**	**-**	**-**	**6,790**
moratorium only	5,085	1,705	-	-	6,790
moratorium and restructuring	-	-	-	-	-
with expired moratorium:	**248,652**	**4,510**	**10,228**	**-**	**263,390**
moratorium only	248,652	3,895	9,977	-	262,524
moratorium and restructuring	-	615	251	-	866
with restructuring but not under moratorium:	**-**	**2,809**	**3,295**	**-**	**6,104**

	31 December 2020				
Loss allowance for loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
currently under moratorium:	**(40)**	**(1)**	**-**	**-**	**(41)**
moratorium only	(40)	(1)	-	-	(41)
moratorium and restructuring	-	-	-	-	-
with expired moratorium:	**(2,388)**	**(295)**	**(4,571)**	**-**	**(7,254)**
moratorium only	(2,388)	(254)	(4,450)	-	(7,092)
moratorium and restructuring	-	(41)	(121)	-	(162)
with restructuring but not under moratorium:	**-**	**(317)**	**(1,625)**	**-**	**(1,942)**

18 Property, plant and equipment and Intangible assets

	Land and buildings	Business and office equipment	ROU assets – buildings	Intangible assets	Total
Cost					
Balance as of 1 Jan 2019	38,119	28,619	6,612	15,269	88,619
Acquisitions	2,539	3,561	645	1,679	8,424
Disposals	(378)	(5,310)	(2,084)	(18)	(7,790)
Balance as of 31 Dec 2019	**40,280**	**26,870**	**5,173**	**16,930**	**89,253**
Depreciation					
Balance as of 1 Jan 2019	8,068	19,294	-	10,202	37,564
Depreciation for the period	1,095	2,768	1,191	1,256	6,310
Accumulated depreciation of disposal	(177)	(4,867)	(247)	(18)	(5,309)
Balance as of 31 Dec 2019	**8,986**	**17,195**	**944**	**11,440**	**38,565**
Carrying amounts					
Balance as of 1 Jan 2019	30,051	9,325	6,612	5,067	51,055
Balance as of 31 Dec 2019	31,294	9,675	4,229	5,490	50,688
Cost					
Balance as of 1 Jan 2020	40,280	26,870	5,173	16,930	89,253
Acquisitions	10,540	1,389	1,384	1,891	15,204
Disposals	(220)	(2,122)	(1,334)	(12)	(3,688)
Balance as of 31 Dec 2020	**50,600**	**26,137**	**5,223**	**18,809**	**100,769**
Depreciation					
Balance as of 1 Jan 2020	8,986	17,195	944	11,440	38,565
Depreciation for the period	1,109	2,583	943	1,376	6,011
Accumulated depreciation of disposal	(81)	(1,862)	(409)	(2)	(2,354)
Balance as of 31 Dec 2020	**10,014**	**17,916**	**1,478**	**12,814**	**42,222**
Carrying amounts					
Balance as of 1 Jan 2020	31,294	9,675	4,229	5,490	50,688
Balance as of 31 Dec 2020	40,586	8,221	3,745	5,995	58,547

19 Deferred tax assets

The deferred income taxes relate to the following temporary differences:

	2020	2019
Deferred tax assets		
Repossessed properties	493	722
Unused staff holiday time and retirement benefit provision	89	71
Other temporary differences	31	48
Total deferred tax assets	**613**	**841**
Deferred tax liabilities		
Property, plant and equipment	509	482
Other temporary differences	46	46
Total deferred tax liabilities	**555**	**528**
Net deferred tax assets	**58**	**313**

The following table analyses the change in deferred taxes:

	2020	2019
Unused staff holiday time and retirement benefit provision	18	5
Repossessed properties	(229)	(264)
Property, plant and equipment	(27)	22
Other temporary differences	(17)	-
Total change in deferred taxes (Note 13)	**(255)**	**(237)**

20 Other assets

	2020	2019
Accounts receivable	4,208	5,456
Repossessed properties	549	3,114
Prepayments	771	857
Unauthorized overdrafts	535	-
Tax receivables	224	178
Loss allowance for account receivables	(27)	(33)
Total other assets	**6,260**	**9,572**

Repossessed properties shown in the above table include real estates, agricultural and regulated land, etc. They are carried at the lower of the previous carrying amount of the written-off loan and the expected selling price less cost to sell. At the end of 2020 the repossessed property is only commercial property. Reconciliation of the carrying amount of repossessed property is presented in the following table:

Repossessed property	2020	2019
Balance as of 1 January	**3,114**	**5,349**
Additions	367	251
Disposals (sales)	(3,580)	(3,080)
Reversal of impairment of repossessed property	648	594
Balance as of 31 December	**549**	**3,114**

20 Other assets (continued)

Fair values of repossessed property is established on the basis of internal calculations. The group considers the following valuation techniques:

- Cost approach. It considers the current replacement costs of building the property, including the cost of transportation, installation and start-up.
- Income approach. It considers the present value of the net cash flows expected to be generated from the facility, taking into account the planned EBITDA growth rate and budgeted capital expenditure growth rate; the expected net cash flows are discounted using a risk-adjusted discount rate.
- Sales comparison approach. It considers direct comparison with the offered prices of similar properties.

The following table discloses the other financial assets balances by three stages for the purpose of expected credit losses measurement as of 31 December 2020.

Other financial assets

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 Jan 2019	**4,859**	**-**	**-**	**-**	**4,859**
New financial assets originated	5,456	-	-	-	5,456
Derecognition	(4,859)	-	-	-	(4,859)
Gross outstanding amount as at 31 Dec 2019	**5,456**	**-**	-	-	**5,456**
New financial assets originated	4,743	-	-	-	**4,743**
Derecognition	(5,456)	-	-	-	**(5,456)**
As at 31 Dec 2020	**4,743**	**-**	**-**	**-**	**4,743**

Loss allowances for other assets

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2019	**(29)**	**-**	**-**	**-**	**(29)**
New financial assets originated	(4)	-	-	-	**(4)**
Release due to derecognition	-	-	-	-	**-**
Balance at 31 Dec 2019	**(33)**	**-**	**-**	**-**	**(33)**
New financial assets originated	(6)	-	-	-	**(6)**
Release due to derecognition	12	-	-	-	**12**
As at 31 Dec 2020	**(27)**	**-**	**-**	**-**	**(27)**

21 Liabilities to banks

	2020	2019
Current accounts	642	434
Loans	7,114	27,200
Total liabilities to banks	**7,756**	**27,634**

The current accounts include liabilities to ProCredit Bank Germany and liabilities to other banks of the ProCredit Holding group in the amount of BGN 17 thousand (2019: BGN 108 thousand). The loans include liabilities to ProCredit Bank Germany in the amount of BGN 7,114 thousand (2019: BGN 27,200 thousand) with maturity in 2024.

22 Liabilities to customers

	2020	2019
Current accounts		
- private individuals	230,405	189,042
- legal entities	841,667	598,981
Total current accounts	**1,072,072**	**788,023**
Saving accounts		
- private individuals	380,983	307,316
- legal entities	469,083	526,083
Total saving accounts	**850,066**	**833,399**
Term deposit accounts		
- private individuals	220,712	221,689
- legal entities	241,662	197,238
Total term deposit accounts	**462,374**	**418,927**
Payments in transit	24,515	11,650
Total liabilities to customers	**2,409,027**	**2,051,999**

23 Liabilities to financial institutions

Institution	Final year of maturity	2020	2019
European Bank for Reconstruction and Development (EBRD)	2023	89,282	97,554
European Investment Bank (EIB)	2024	48,870	19,558
Black See Trade and Development Bank (BSTDB)	2021	39,158	-
European Investment Fund (EIF)	2026	20,188	28,342
Total liabilities to institutions		**197,498**	**145,454**

The loan agreement with the European Investment Fund is under the JEREMIE program aimed towards co-financing of small and medium enterprises. The group was in compliance with the covenants included in the respective loan agreements in 2020. The loans, received by financial institutions, are not collateralized by the bank.

24 Lease liabilities

Lease liabilities can be analysed as follows:

	31 Dec 2020	31 Dec 2019
Total lease liabilities	**3,818**	**4,274**

	31 Dec 2020	31 Dec 2019
Short-term lease liabilities	843	1,020
Long-term lease liabilities	2,975	3,254
Total lease liabilities	**3,818**	**4,274**

Minimum lease payments	**31 Dec 2020**	**31 Dec 2019**
Between 1 and 5 years	1,006	1,089
More than 5 years	2,708	2,818
Between 1 and 5 years	1,024	904
Total minimum lease payments	**4,738**	**4,811**
Reduced by the amounts representing finance costs	(920)	(537)
Present value of the minimum lease payments	**3,818**	**4,274**

24 Lease liabilities (continued)

	31 Dec 2020	31 Dec 2019
Interest expense on lease liabilities	97	128
Expense relating to leases of low-value assets	91	271
Total expenses related to leases	**188**	**399**

The group had total cash outflows for leases of BGN 1,937 thousand in 2020 (BGN 1,564 thousand in 2019).

25 Derivative financial liabilities

Derivative financial liabilities represent the net position of accrued interest from interest rate SWAP with ProCredit Bank (Germany) with contractual amount BGN 10,270 thousand. The outstanding notional amount as of 31 December 2020 was BGN 7,776 thousand (2019: BGN 8,791 thousand). The fair value of derivative financial liabilities as of 31 December 2020 is BGN 326 thousand (2019: BGN 305 thousand).

26 Other liabilities

	2020	2019
Creditors	2,418	4,024
Non-income taxes payable	943	839
Deferred income	1	1
Other due payments	12	18
Total other liabilities	**3,374**	**4,882**

The other financial liabilities are presented in the position Creditors in the table above.

27 Provisions

	2020	2019
Provisions for losses from off-balance sheet items	682	626
Provisions for unused staff holiday time	410	281
Provisions for post-employment benefits (see below)	222	174
Total provisions	**1,314**	**1,081**

Obligations for defined benefit retirement compensation

The estimated amount of the obligation as at each reporting date and the expenses for retirement compensation recognised are based on an actuarial report (see below information on actuarial assumptions). The defined benefit plan (obligation for compensation upon retirement) is an unfunded plan.

Movement in the present value of the defined benefit obligations

	2020	2019
Defined benefit obligations as of 1 January	**174**	**126**
Current service costs	24	23
Actuarial losses from changes in financial and demographic assumptions	23	24
Interest cost	1	1
Defined benefit obligations as of 31 December	**222**	**174**

27 Provisions (continued)

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	2020	2019
Discount rate as of 31 December	0.34%	0.68%
Future salary increases	5.00%	5.00%
Interest rate increase/decrease	5.00%	5.00%

28 Equity

Share capital and share premium

At the end of 2020 the capital of the group consists of registered capital and share premium. The registered capital of BGN 203,326 thousand is divided into 203,326 thousand shares (2019: 203,326 thousand shares) with a nominal value of BGN 1 each. All shares confer equal voting power and are fully paid. The shareholder of the group's capital is ProCredit Holding. The share premium is BGN 3,496 thousand (2019: BGN 3,496 thousand).

Retained earnings and reserves

Legal and other reserves – the reserves have been distributed from the net profit of the group in compliance with the Commercial Law, article 246. The funds in these reserves could only be used for covering of current loss and loss from previous years.

Revaluation reserve – comprise accumulated revaluation by fair value of financial assets at fair value through other comprehensive income.

Retained earnings – comprise the retained profits of the group. In 2020 the group did not pay dividends following the decision of the BNB for supporting the capital base of the banking system.

29 Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities to					Equity			Total
	Banks	Customers	Institutions	Lease liabilities	Other liabilities	Share capital	Reserves	Retained earnings	
Balance at 1 Jan 2019	**91,164**	**1,656,287**	**179,662**	**-**	**5,221**	**187,264**	**14,708**	**40,544**	**2,174,850**
Proceeds from liabilities to	-	-	97,792	-	-	-	-	-	**97,792**
Repayment of liabilities to banks and institutions	(25,426)	-	(132,307)	(1,436)	-	-	-	-	**(159,169)**
Dividend paid	-	-	-	-	-	-	-	(35,423)	**(35,423)**
Total changes from financing cash flows	**(25,426)**	**-**	**(34,515)**	**(1,436)**	**-**	**-**	**-**	**(35,423)**	**(96,800)**
Other changes									
Liability-related									
Short term liabilities to banks and institutions	(37,557)	-	-	-	-	-	-	-	**(37,557)**
Income tax expense	-	-	-	-	3,827	-	-	-	**3,827**
Income tax paid	-	-	-	-	(3,820)	-	-	-	**(3,820)**
Liabilities to customers	-	395,692	-	-	-	-	-	-	**395,692**
Unrealised gains/ losses from currency revaluation	-	13	-	-	-	-	-	-	**13**
Increase in lease liabilities	-	-	-	5,838	-	-	-	-	**5,838**
Increase in other liabilities	-	-	-	-	1,562	-	-	-	**1,562**
Interest expense	1,011	4,053	1,092	-	-	-	-	-	**6,156**
Interest paid	(1,558)	(4,046)	(785)	(128)	-	-	-	-	**(6,517)**
Total liability-related other changes	**(38,104)**	**395,712**	**307**	**5,710**	**1,569**	**-**	**-**	**-**	**365,194**
Equity-related									
Revaluation of investment securities, net of taxes	-	-	-	-	-	-	1,491	-	**1,491**
Transfer	-	-	-	-	-	-	1,956	(1,956)	**-**
Capital increase	-	-	-	-	-	19,558	-	-	**19,558**
Profit for the year	-	-	-	-	-	-	-	36,202	**36,202**
Total equity-related other changes	**-**	**-**	**-**	**-**	**-**	**19,558**	**3,447**	**34,246**	**57,251**
Balance as at 31 Dec 2019	**27,634**	**2,051,999**	**145,454**	**4,274**	**6,790**	**206,822**	**18,155**	**39,367**	**2,500,495**
Proceeds from liabilities to	-	-	68,455	-	-	-	-	-	**68,455**
Repayment of liabilities to banks and institutions	(19,558)	-	(16,537)	(1,840)	-	-	-	-	**(37,935)**
Dividend paid	-	-	-	-	-	-	-	-	**-**
Total changes from financing cash flows	**(19,558)**	**-**	**51,918**	**(1,840)**	**-**	**-**	**-**	**-**	**30,520**
Other changes									
Liability-related									
Short term liabilities to banks and institutions	209	-	-	-	-	-	-	-	**209**
Income tax expense	-	-	-	-	3,790	-	-	-	**3,790**
Income tax paid	-	-	-	-	(3,821)	-	-	-	**(3,821)**
Liabilities to customers	-	357,448	-	-	-	-	-	-	**357,448**
Unrealised gains/ losses from currency revaluation	-	(392)	-	-	-	-	-	-	**(392)**
Increase in lease liabilities	-	-	-	1,384	-	-	-	-	**1,384**
Increase in other liabilities	-	-	-	-	(1,254)	-	-	-	**(1,254)**
Interest expense	359	2,430	1,244	97	-	-	-	-	**4,130**
Interest paid	(888)	(2,458)	(1,118)	(97)	-	-	-	-	**(4,561)**
Total liability-related other changes	**(320)**	**357,028**	**126**	**1,384**	**(1,285)**	**-**	**-**	**-**	**356,933**
Equity-related									
Revaluation of afs securities, net of taxes	-	-	-	-	-	-	685	-	**685**
Transfer	-	-	-	-	-	-	1,956	(1,956)	**-**
Capital increase	-	-	-	-	-	-	-	-	**-**
Profit for the year	-	-	-	-	-	-	-	33,908	**33,908**
Total equity-related other changes	**-**	**-**	**-**	**-**	**-**	**-**	**2,641**	**31,952**	**34,593**
Balance at 31 Dec 2020	**7,756**	**2,409,027**	**197,498**	**3,818**	**5,505**	**206,822**	**20,796**	**71,319**	**2,922,541**

30 Contingent liabilities and commitments

Off-balance sheet commitments

The following table indicates the contractual amounts of the group's off-balance sheet financial instruments that commit it to extend credit to customers:

	2020	2019
Commitments to extend credit	372,994	279,696
Letters of credit and letters of guarantee	73,485	40,866
Total contingencies and commitments	**446,479**	**320,562**

30 Contingent liabilities and commitments (continued)

Provisions for financial off-balance sheet commitments	**2020**	**2019**
Beginning of the year	626	553
Release	(513)	(553)
Additions	569	626
End of the year	**682**	**626**

31 Related party transactions

ProCredit Holding is the sole shareholder, the ultimate parent and ultimate controlling party of the group. ProCredit Bank has stand-by line agreement for EUR 10 million with ProCredit Holding, directed towards liquidity management, which is not utilised at the end of 2020. The group pays commitment fee under the stand-by line agreement. The group has received loans from ProCredit Holding and ProCredit Bank Germany (fully owned subsidiary of ProCredit Holding) under loan agreements. Banks from ProCredit Holding group keep current accounts placements with the group, which are disclosed in Note 21.

The volumes of related party transactions outstanding at year end, and associated expenses and income for the year are as follows:

Transactions/balances with ProCredit Holding	**2020**	**2019**
Other income earned	196	198
Liabilities at the end of the period	124	108
Interest expense incurred	82	423
Other expenses incurred	2,639	2,146

Transactions/balances with other ProCredit group entities	**2020**	**2019**
Loans and advances at the end of the period	99,155	317,024
Interest income earned	(13)	(131)
Other income earned	145	270
Liabilities at the end of the period	7,457	27,617
Interest expense incurred	372	699
Other expenses incurred	1,538	2,900

In 2020 the total compensation of key management personnel was BGN 562 thousand (2019: BGN 655 thousand). The compensation is remuneration only and there are no other compensations of the key management.

32 Subsequent events

The shareholder of the group's capital at an Extraordinary Session, held on 22 March 2021, took decision for the increase of the subscribed capital of the bank by BGN 29.3 million.

The shareholder of the group's capital at an Extraordinary Session, held on 22 January 2021, approved changes in the Supervisory Board of ProCredit Bank as follows:

- Released Mr. Claus-Peter Zeitinger and Mr. Christian Kistner as members of the Supervisory Board.
- Appointed Mr. Patrick Silvan Zeitinger and Mr. Hubertus Petrus Maria Knapen as new members of the Supervisory Board.

Private High School "Denis Diderot" was entered in the Register of Institutions in the system of preschool and school education of the Ministry of Education and Science on 18 March 2021.

There have been no other events after the reporting period that may have a material effect on the consolidated financial statements for 2020.

Consolidated Annual Activity Report of the Management of ProCredit Bank (Bulgaria) EAD for 2020

Description of the activity

The group of ProCredit Bank (Bulgaria) EAD comprises ProCredit Bank (Bulgaria) EAD, ProCredit Properties EAD, ProCredit Education EAD and Private High School “Denis Diderot” EAD (referred to collectively as “the group”).

ProCredit Bank (Bulgaria) EAD (“ProCredit Bank” or the “bank” was established on 6 June 2001 as a result of the founding meeting of shareholders — namely the European Bank for Reconstruction and Development (“EBRD”), the International Finance Corporation (“IFC”), ProCredit Holding AG & Co. KGaA (“ProCredit Holding”), Deutsche Investitions-und Entwicklungsgesellschaft (DEG) and Commerzbank AG. The bank was registered with the Sofia City Court as a Bulgarian joint-stock company on 28 September 2001. Since the beginning of 2013, the sole owner of the capital of the bank is ProCredit Holding.

ProCredit Holding is the parent company of the bank and supervises its activities.

The bank is managed by a Supervisory Board comprising five members and a Management Board comprising four members elected for a period of three years.

ProCredit Bank supports development and provides a full range of banking services. The group provides services to both businesses and individuals. In its activities, ProCredit Bank adheres to several basic principles: transparency in communication with clients; consumer lending is not encouraged; only services that are based on both an understanding of the client’s profile and an in-depth financial analysis are provided. This responsible approach to banking enables the establishment of long-term partnerships with clients based on mutual trust and cooperation.

In dealing with business clients, ProCredit Bank focuses on small and medium-sized enterprises, as it believes that they create jobs and make a vital contribution to the economies in which they operate. By offering understandable and affordable deposits and other banking services and investing heavily in financial education, ProCredit Bank strives to build a culture of savings and responsibility that contributes to greater stability and security in the households.

The group structures its clients according to their business potential, the groups being – business clients: small and medium-sized enterprises, and private individuals. Business clients, that receive services from ProCredit Bank, include commercial companies, agricultural producers and self-employed persons, while the focus on individuals is on regular income earners and business owners. The group strives to have a detailed knowledge of its clients in terms of business model and development and investment plans, as it aims at being able to apply to each client an individual approach, as well as a long-term strategy for the services it provides to the client. The group’s strategic focus is on manufacturing companies, agricultural producers, the financing of projects in the field of energy efficiency, environmental protection and renewable energy.

The group’s shareholder expects a sustainable return on investment over the long term, and short-term profit maximisation is not the goal. ProCredit Bank invests heavily in the training and development of its employees in order to create an open and productive working atmosphere and to provide professional and competent customer service.

As of the end of 2020, the group’s operations were carried out through its headquarters in Sofia, 6 branches in the country and 1 branch in Thessaloniki (Greece). The branch network covers the main business regions of the Republic of Bulgaria and thus the group offers a full range of banking services throughout the country.

Consolidated Annual Activity Report (continued)

Development and results from operations in 2020

In 2020, ProCredit Bank continued its efforts to improve efficiency in its operations while focusing on expanding the capacity for providing qualitative and competent service as well as on building long-term relationships with its clients. The group operates an adequate institutional structure in the form of specialised departments and close communication between them and the head office and the branch network. The changes in the processes in the group aim at increasing the efficiency and quality of work of the institution. The following main developments occurred in 2020:

- Despite the challenging environment shaped by the COVID-19 pandemic, there was a solid increase in the loan and deposit portfolio of the main target groups of clients – small and medium-sized enterprises and individuals; the growth in the total loan portfolio in 2020 was 16.6%, while the total deposit portfolio grew by 17.4% (this growth was ahead of the average for the banking system for both portfolios). The results achieved with respect to the main business segments were based on the optimised process of attracting customers and approval of financing, on the development of individual strategies for dealing with companies and individuals, as well as on the focused efforts of the group to attract the entire banking business of its customers and to increase clients' activity regarding banking operations. At the same time, the quality of the loan portfolio remained on a very good level compared to the market average despite the growth of the share of loans classified in Stage 3 according to IFRS 9 from 1.9% as of 31 December 2019 to 2.5% as of 31 December 2020 as a result by the worsened macroeconomic environment related and reduced business activity due to the COVID-19 pandemic restrictions.
- The group continued its structured approach in attracting new business and private clients and their overall banking business, as the total number of clients increased by 3% in 2020 compared to the end of 2019. This was facilitated by the developed and improved infrastructure, ensuring the implementation of the concept of direct banking (including the possibilities for remote identification of customers, as well as for attracting customers through digital channels). Simultaneously, the average monthly number of performed main banking operations from one client also increased in 2020 compared to 2019. These developments proved the resilience and sustainability of the group's business model even in the times of stress.
- Investments were made in the development of new functionalities of the information systems and in the platform for performing electronic banking operations (the ProBanking internet banking system) with respect to expanding the range of automated client requests, processed without operator involvement. The group's Contact Centre was further developed for highly professional servicing as it plays a key role in the process of attracting customers. Remote video identification is used to serve current customers, and this technology allows the extension of customer service in an efficient and secure way. As of the end of 2020 virtually 100% of clients operations are performed electronically (via ProBanking; card transactions; ATM transactions).
- A number of projects related to environmental management were implemented – such as: purchasing of 100% renewable electricity – for all the offices of the group; purchase of certificates to offset the CO2 emissions from heating consumption for 2019 and 2020 as the Head Office building in Sofia became the first carbon neutral building in Europe certified under EDGE Zero carbon in the summer of 2020; conducting awareness raising campaigns and staff trainings. The group has also further developed its expertise in financing renewable energy projects which were the growth driver of the green loan portfolio in 2020.

Consolidated Annual Activity Report (continued)

Development and results from operations in 2020 (continued)

In addition to its clients, ProCredit Bank builds long-term relationships with its employees. This starts from the outset – with a serious and transparent selection process for future employees. The aim is to attract dedicated individuals who understand and support the way the group operates and are willing to contribute to the common good. All future employees of the group are subject to the same selection process. During the programme, participants acquire knowledge and skills in both banking and communication and analytical thinking disciplines. The course includes classes in theory and practical training in the branches of ProCredit Bank. The institution adheres to a responsible approach to staff that is applied by the entire ProCredit Group, respects its ethical values and does not tolerate discrimination. ProCredit Bank is convinced that this guarantees successful future cooperation with employees as well as an open and stimulating work environment. The group is strongly committed to providing opportunities for continuous training and development of staff at all levels. Along with internal career growth, these opportunities contribute to building a strong and motivated team. In order to meet the requirements for the responsibilities of management positions, all managers must attend courses at the ProCredit Group's academies. In 2020, the group invested BGN 1,022 thousand in the training of its employees (2019: BGN 1,919 thousand).

In 2020, ProCredit Bank reaffirmed its commitment to the development of the Bulgarian business and to the promotion of a savings culture and practice of accumulating family assets among households in the country. The group continued to actively provide new loans and to support the implementation of various business projects of its clients. The new business in the form of newly extended loans in 2020 amounted to BGN 1,052 million (2019: BGN 880 million) (including undrawn commitments), and the net loan portfolio recorded a 16.6% increase on the level at the end of 2019 (2019: BGN 2,110 million, 2019: BGN 1,810 million). As a result of the group's deliberate efforts to develop a savings culture among its customers, as well as to attract their entire banking business, in 2020 customer deposits recorded a substantial increase compared to the previous year. The increase was 17.4% compared to the end of 2019, and as of 31 December 2020 the total deposit base amounted to BGN 2,409 million (2019: BGN 2,052 million). It is important to note the growth of BGN 314 million (or 19.2%) registered in current and FlexSave accounts. Total assets increased by 16.9% compared to the end of 2020 and reached BGN 2,923 million as of end 2020 (2019: BGN 2,500 million). The active clients, serviced by ProCredit Bank at the end of 2020, were 46,000.

ProCredit Bank has a strategic focus on providing services to manufacturing companies, as they have the opportunity for sustainable development and their operations have a significant effect on employment in individual regions. More than 300 such companies were financed in 2020; the total value of the loans granted amounted to BGN 348 million in 2020.

The group retained its leading position on the Bulgarian financial market in terms of servicing agricultural producers; it had 2,420 clients as of end 2020 who are farmers. In 2020, loans disbursed to agricultural producers amounted to BGN 279 million. The group is among the leading credit institutions in the country by this indicator.

Consolidated Annual Activity Report (continued)

Development and results from operations in 2020 (continued)

Another focus of the group's operations during the year in respect of business clients was the participation in joint programmes with the European Investment Fund (EIF). In addition to already active or completed ones such as: the JEREMIE initiative (Joint European Resources for Micro to Medium Enterprises); InnovFin programme through Horizon 2020 financial instruments to support innovative small and medium-sized enterprises in Bulgaria and Greece; Operational Programme "Initiative for small and medium-sized enterprises" which aimed at improving access to financing for small and medium-sized enterprises, ProCredit Bank and the EIF further extended their partnership by concluding new guarantee agreements in 2020, as follows:

- JEREMIE Bulgaria - Documentary Finance Guarantee for a portfolio of loans and documentary operations.
- ESIF EAFRD Greece for a portfolio of loans to agricultural producers (applicable to Greek borrowers).
- ESIF ERDF Greece for a portfolio of loans to SMEs (applicable to Greek borrowers).
- Extension of the InnovFin program for a portfolio of loans to SMEs including COVID-19 support transactions.

The group also concluded in 2020 new guarantee agreement with the Hellenic Development Bank (HDB) for a portfolio of loans to SMEs. The program is applicable to Greek borrowers.

As of the end of 2020, over 5,400 loans in the amount of almost EUR 600 million have been granted under joint programmes with the EIF and the HDB. ProCredit Bank will continue to further expand its cooperation with the EIF on SME financing programmes in 2021 as well.

An important aspect of the group's operations is its commitment to activities aimed at protecting the environment and improving energy efficiency. All banks within the ProCredit Group set high standards in terms of the impact of their operations on the environment. ProCredit banks have a three-pronged approach to challenges, related to the protection of the environment:

First pillar: Internal environmental management system: an approach to better understand and improve the sustainable energy consumption and the group's environmental impact has been introduced in the group's internal organisation of work.

Second pillar: Environmental risk management in lending: an environmental protection system based on a continuous evaluation of the loan portfolio (including the rejection of loan applications submitted by enterprises engaged in activities that are considered environmentally risky) has been implemented.

Third pillar: Promoting "green finance": ProCredit Bank aims to promote economic development that is as consistent as possible with the sustainable use of the environment. In practice, this means engaging in projects that are implemented in the following areas: (1) Improving energy efficiency; (2) Renewable energy production; (3) Measures having a favourable environmental impact. The group builds the necessary administrative and expert capacity to enable it to be even more active in supporting its clients for the implementation of such projects.

The group applies specially developed internal methodology that allows it to analyse and evaluate clients' investments in the field of energy efficiency, environmental protection and renewable energy production. In 2020, ProCredit Bank financed the implementation of "green" projects by both business clients and private individuals. The loans granted reached BGN 528 million as of 31 December 2020, and the group's "green" portfolio realised a total growth of 58% in 2020 compared to the end of 2019 (mainly driven by increase of the renewable energy production financing). The financing of projects related to improving energy efficiency, environmental protection and renewable energy will continue to be in the focus of the group's business in 2021.

Consolidated Annual Activity Report (continued)

Development and results from operations in 2020 (continued)

Throughout the reporting year, ProCredit Bank continued to encourage its clients to use full banking services from the institution, and the various opportunities for electronic and cashless transactions such as Internet banking, the use of bank cards and various devices available in the 24-hour service areas and communication with the Contact Centre were key elements of the business strategy. This approach saves customers time while allowing employees to focus on quality of service and customer consultations.

Regarding the quality of the group's assets, as a result of the organised and structured approach to dealing with non-performing loans the level of such exposures is significantly lower than the average for the banking system. As of 31 December 2020, exposures overdue by more than 90 days amounted to 1.4% of the total loan portfolio, while the same indicator for the banking system as of the same date, according to data published by the BNB, was 5.0%. The value of one of the main indicators that the group monitors in the process of credit risk management – the ratio of the amount of loans overdue by more than 30 days to the total loan portfolio – was 1.5% as of 31 December 2020 (2019: 1.4%).

Financial indicators

The financial indicators presented below are based on the annual consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS).

Statement of Profit and Loss

Net interest income

The amount of net interest income reported during the financial year 2020 was BGN 59,972 thousand (2019: BGN 54,301 thousand); the change compared to the previous year is an increase of 10.4%.

Interest income: interest income in the amount of BGN 65,241 thousand comprises entirely interest income from loans granted. Compared to 2019 (BGN 60,946 thousand), the total interest income has increased by 7.0% as a result of an increase in the loan portfolio and a limited decrease in the net interest margin in 2020.

Interest expenses: the total interest expenses in 2020 amounted to BGN 5,269 thousand (2019: BGN 6,645 thousand); the main portion of the interest expenses (46.1%) comprised interest on funds deposited by clients and amounted to BGN 2,431 thousand (2019: BGN 4,053 thousand). The remaining interest expenses constituted interest accrued on borrowings from banks, other financial institutions and lease liabilities and amounted to BGN 1,699 thousand (32.2%) (2019: BGN 2,231 thousand) and interest expenses on assets of BGN 1,139 thousands (21.6%) (2019: BGN 361 thousands). Compared to 2019, the total interest expenses decreased by 20.7%. This was a result of the lower average annual interest rates both accrued on customer deposits and wholesale funding, which was in line with the overall historically lowest interest rate levels on the European financial market.

Net fee and commission income

The reported net commission income amounted to a total of BGN 23,578 thousand (2019: BGN 25,345 thousand); the total decrease was 7.0%.

Consolidated Annual Activity Report (continued)

Financial indicators (continued)

Commission income: the total amount of commission income was BGN 26,447 thousand and registered decline of 6.6% compared to 2019 (BGN 28,319 thousand). The decline was mainly due to lower prices of some major banking operations (such as foreign currency payments in connection with the entry into force of Regulation (EU) 2019/518) and reduced business and customer activity due to the restrictive measures imposed in connection with the COVID-19 pandemic.

Commission expenses: the total amount of commission expenses was BGN 2,869 thousand in 2020. Compared to 2019 (BGN 2,974 thousand), the total amount of charges paid decreased by 3.5%; this was mainly due to reduced fees for payment services.

Result from foreign exchange transactions

The net trading income in 2020 totalled BGN 8,943 thousand (2019: BGN 8,823 thousand); the increase of 1.4% was due to the increased volume of transactions. The total net trading income includes gains from foreign exchange transactions and currency revaluations.

Other operating income/expenses

Main item under this position is the income or expenses related to impairment and administration of acquired assets which were collateral for problematic exposures. In 2020, the group realised a profit of BGN 220 thousand, which was a decrease compared to 2019 (BGN 422 thousand).

Expenses according to the Statement of Profit and Loss

Loss allowance of financial assets: in 2020 the group accrued loss allowances in the amount of BGN 5,811 thousand (2019: BGN 464 income from reversal of loss allowance). The 2020 result is related to growth of the loan portfolio and increased credit risk for certain exposures, which are assessed individually.

Operating expenses: the operating expenses of the group in 2020 totalled BGN 50,388 thousand; this is a 2.0% increase on the 2019 amount (BGN 49,379 thousand). In 2020, the level of operating expenses basically remained the same as in 2019. The main item, in which growth was realized, was personnel expenses, which increased by 7.4% compared to the reported in 2019, while at the same time the remaining part of the operating expenses decreased by a total of 1.1%, with more significant reductions being realized in: training-related expenditures (including travel for training purposes); marketing costs; services costs.

The breakdown of expenses by line items in the Statement of Profit and Loss for 2020 is as follows:

- personnel expenses: BGN 19,790 thousand (2019: BGN 18,429 thousand).
- payments to Deposit Insurance Fund and Bank Restructuring Fund: BGN 6,864 thousand (2019: BGN 5,658 thousand).
- depreciation of assets: BGN 6,011 thousand (2019: BGN 6,310 thousand).
- other operating expenses: BGN 17,723 thousand (2019: BGN 18,982 thousand).

Financial result

The financial result of the group before tax amounted to BGN 37,903 thousand (2019: BGN 40,413 thousand), and after tax: BGN 33,908 thousand (2019: BGN 36,202 thousand). The group reported a 6.3% decrease in the net profit, as the increase in net interest income was offset by a decrease in the net commission income and loss allowance expenses. The return on equity in 2020 was 12.0% (2019: 14.3%). By this indicator ProCredit Bank was above the average for the banking system (5.5%) in 2020.

Consolidated Annual Activity Report (continued)

Financial indicators (continued)

Statement of Financial Position

ASSETS

As of 31 December 2020, the assets of ProCredit Bank at carrying amount had a value of BGN 2,922,541 thousand (2019: BGN 2,500,495 thousand); a 16.9% increase on the previous year was reported driven by the growth of the customer loan and deposit portfolios.

Cash and cash equivalents

The cash and cash equivalents on 31 December 2020 amounted to BGN 595,741 thousand (2019: BGN 282,956 thousand). The change compared to the previous year is a 111% increase.

Loans and advances to banks

Loans and advances to other banks as of 31 December 2020 amounted to BGN 122,966 thousand (2019: BGN 325,387 thousand). The change compared to the previous year is a 62.2% decrease. The loans and advances at the end of 2020 comprised cash in current accounts and bank deposits, and the decrease was due to lower balances in the accounts with ProCredit Bank Germany than in the previous year.

Investment securities

The value of investment securities as of 31 December 2020 was BGN 29,221 thousand (31 December 2019: BGN 21,497 thousand). They include two main groups of assets: (1) investments in government securities that are treated as a liquidity buffer (2020: BGN 22,540 thousand and 2019: BGN 15,056 thousand) and (2) shareholdings in companies performing financial intermediation activities (2020: BGN 6,681 thousand and 2019: BGN 6,441 thousand). The group does not invest in financial instruments for the purpose of generating speculative profits and this is stipulated in its risk management strategy and policies.

At the end of 2020 the group's liquid assets (cash and balances on accounts with central banks, loans and advances to other banks with remaining maturity of up to 7 days and investments in government securities) totalled BGN 711,902 thousand (2019: BGN 557,879 thousand). This was a 27.6% increase compared to 2019. This corresponds to a high level of the total liquid assets to customer deposits ratio which was 29.6% as at 31 December 2020 (31 December 2019: 27.2%). The stable level of liquidity at the end of 2020 was the result of the solid growth in funds deposited by clients. In 2021 the group expects the loan portfolio growth to be mainly financed by increase of the customer deposit portfolio, thus allowing to maintain the liquidity levels.

Loans to customers

The loans granted to customers have a major share in the group's assets and as at 31 December 2020 the carrying amount of these assets was BGN 2,109,748 thousand, or 72.2% (2019: 72.4%) of the total assets. Compared to 2019 (BGN 1,810,082 thousand), the value of the loan portfolio increased by 16.6%. The growth achieved can be attributed to the active targeting and the strong strategic focus for providing services and financing to small and medium-sized enterprises with a formalised structure, high-quality management and a sustainable business model. More than 60% of the loan portfolio growth in 2020 was attributable to green loans.

Consolidated Annual Activity Report (continued)

Financial indicators (continued)

The group's focus is on providing complete banking servicing to small and medium-sized enterprises. Therefore, the loan portfolio of these clients has a dominant share in the total portfolio of ProCredit Bank – as of 31 December 2020 its value amounted to BGN 1,879,247 thousand, or 89.1% from the total loan portfolio. During the year, there was a growth of 16.1% compared to the end of 2019 (BGN 1,618,170 thousand). The housing loans to private individuals were another major focus. Their amount as of 31 December 2020 was BGN 201,687 thousand or 9.6%, and this portfolio realised a growth of 18.8% in 2020 (2019: BGN 169,810 thousand).

Fixed assets

The carrying amount of fixed tangible and intangible assets as of 31 December 2020 was BGN 58,547 thousand, virtually keeping its value compared to the previous year (2019: BGN 50,688 thousand). The increase of 15.5% was mainly related to the development of school project by ProCredit Education EAD and Private High School "Denis Diderot" EAD.

Other assets

As of 31 December 2020, the other assets of the group amounted to BGN 6,260 thousand (2019: BGN 9,572 thousand). The change is a 34.6% decrease. Assets acquired as a result of default of loan agreements accounted for the most significant part of the drop as their value decreased to BGN 549 thousand at the end of 2020 (2019: BGN 3,114 thousand). Active measures, related to marketing promotion and a realisation plan, are in place for the sale of such assets.

LIABILITIES

Liabilities to banks and institutions

As of 31 December 2020 the total value of borrowings from banks and institutions was BGN 205,254 thousand. This amount included BGN 7,756 thousand in payables to banks and BGN 197,498 thousand in borrowings from international financial institutions. Compared to 2019 (BGN 173,088 thousand), the total amount of financing from these counterparties increased by 18.6% as a result of the drawdown of new financing from the EIB and the BSTDB directed towards support of SMEs and Small Mid-Caps loans.

Liabilities to customers

As of 31 December 2020 the funds deposited by customers of the group amounted to BGN 2,409,027 thousand (2019: BGN 2,051,999 thousand). Compared to the previous year, the funds, deposited by customers, registered solid growth of 17.4%. In structural terms, the relative share of sight deposits and savings accounts (FlexSave product) in the total amount of deposits continued to grow, reaching 80.8% at the end of 2020 (2019: 79.6%). The change was related to attracting business clients and individuals and their entire banking business, as well as to the opportunities for active management and use of the funds available in current and savings accounts.

Equity

The group's equity includes share capital and premium reserve in the amount of BGN 206,822 thousand (2019: BGN 206,822 thousand) and retained earnings and reserves in the amount of BGN 92,115 thousand (2019: 57,522 thousand). In 2020 the group did not pay dividends following the decision of the BNB for supporting the capital base of the banking system.

Consolidated Annual Activity Report (continued)

Financial indicators (continued)

The share capital of BGN 203,326 thousand is distributed in 203,326 thousand shares with a nominal value of BGN 1 each. Each share gives one voting right to its holder. The share capital of the group is as follows:

	2020		2019	
Shareholder	**Number of shares (thousands of shares)**	**Share (%)**	**Shareholder**	**Number of shares (thousands of shares)**
ProCredit Holding	203,326	100.0%	203,326	100.0%
Total shares	**203,326**	**100.0%**	**203,326**	**100.0%**

Research and Development Activities

The group does not carry out activities in the field of research and development.

Information about acquisition of own shares, required pursuant to Article 187e of the Commerce Act

The group has not acquired its own shares.

Information pursuant to Article 247 of the Commerce Act

In 2020, the total remuneration of the members of the group's Management Board amounted to BGN 562 thousand (2019: BGN 655 thousand). The members of the Supervisory Board do not receive remuneration from the group.

The members of the Management Board and the Supervisory Board do not hold and have not carried out acquisition or transfer of shares or bonds of the group in 2020.

The members of the Management Board and the Supervisory Board have the following participation in other companies (in accordance with the provisions of Article 247(2)(4) of the Commerce Act):

Members of the Supervisory Board

Petar Slavov, Chairperson
- ProCredit Holding AG & Co. KGaA – member of the Supervisory Board
- ProCredit General Partner AG – member of the Supervisory Board
- ProCredit Properties EAD – member of the Supervisory Board
- ProCredit Razvitie Bulgaria AD – member of the Board of Directors
- ProCredit Education AD – member of the Supervisory Board
- Progled OOD – partner and Managing Director
- Private High School "Denis Diderot" – member of the Supervisory Board

Claus-Peter Zeitinger
- ProCredit Holding AG & Co. KGaA – chairperson of the Supervisory Board
- ProCredit General Partner AG – Chairperson of the Supervisory Board
- ProCredit Bank Ukraine – chairperson of the Supervisory Board

Consolidated Annual Activity Report (continued)

Members of the Supervisory Board (continued)

Gian Marco Felice
- ProCredit Bank Bosnia – chairperson of the Supervisory Board
- Banco ProCredit Ecuador – deputy member of the Supervisory Board
- ProCredit Bank Germany – member of the Supervisory Board
- ProCredit Bank Romania – member of the Supervisory Board
- ProCredit Bank Serbia – chairperson of the Supervisory Board
- ProCredit Bank Ukraine – member of the Supervisory Board
- Quipu GmbH – chairperson of Supervisory Board
- ProCredit Holding AG & Co. KGaA – member of the Management Board

Christian Krämer
- ProCredit Holding AG & Co. KGaA – member of the Supervisory Board
- ProCredit General Partner AG – member of the Supervisory Board
- PATRIP Foundation – chairperson of the Board of Directors
- KfW Development Bank – Director Afghanistan, Pakistan, Iraq; authorised representative (prokurist)

Christian Kistner
- ProCredit Bank Macedonia – member of the Supervisory Board

Members of the Management Board

Rumyana Todorova
- ProCredit Razvitie Bulgaria AD – member of the Board of Directors

Rumyana Todorova
- ProCredit Properties EAD – member of the Management Board

Ivan Dachev
- ProCredit Razvitie Bulgaria AD – executive director and member of the Board of Directors
- Private High School “Denis Diderot” – member of the Supervisory Board

Kamelia Mineva
- ProCredit Education EAD – member of the Management Board
- Private High School “Denis Diderot” – member of the Management Board

In 2020 the members of the Supervisory Board and of the Management Board of the group did not enter into contracts with the group outside its normal course of business or contracts that substantially deviated from market conditions though being part of its normal course of business.

Significant events that occurred after the date of the annual consolidated financial statements

Due to the worldwide spread of COVID-19, global economic growth may be severely impaired. This is likely to have a negative impact on the growth of the group’s customer loan portfolio and profitability. Given the current degree of uncertainty, it is not possible to quantify the financial impact.

The Shareholder of the group’s capital at an Extraordinary Session, held on 22 March 2021, took decision for the increase of the subscribed capital of the group by BGN 29.3 million.

Consolidated Annual Activity Report (continued)

The Shareholder of the group's capital at an Extraordinary Session, held on 22 January 2021, approved changes in the Supervisory Board of ProCredit Bank as follows:

- Released Mr. Claus-Peter Zeitinger and Mr. Christian Kistner as members of the Supervisory Board.
- Appointed Mr. Patrick Silvan Zeitinger and Mr. Hubertus Petrus Maria Knapen as new members of the Supervisory Board.

Private High School "Denis Diderot" was entered in the Register of Institutions in the system of preschool and school education of the Ministry of Education and Science on 18 March 2021.

There have been no other events after the reporting period that may have a material effect on the consolidated financial statements for 2020.

Structure of the group

As of 31 December 2020 the group operated with 6 branches on the territory of Bulgaria and 1 branch in Greece (Thessaloniki). The headquarters of the group and its administration are located at Sofia, 26 Todor Aleksandrov Blvd. The group's staff as of 31 December 2020 consisted of 406 employees (excluding employees on maternity leave and employees involved in ancillary activities).

Financial instruments and management of financial risks

The financial instruments used by the group, the policies for their measurement and presentation, as well as the group's exposure to credit, market and liquidity risk are described in Note 4 of the annual consolidated financial statements.

Expected development of ProCredit Bank (Bulgaria) EAD and goals for 2021

The evolving pandemic of the new coronavirus (Covid-19) poses very serious challenges for the upcoming economic and social development in 2021. Disruptions of economic activity and imposed measures restricting movement are part of the effects directly affecting economic activity which is expected to be negatively affected in terms of aggregate demand and consumption. As the current development of the Bulgarian economy depends on the development of the external partners from the EU as well as on the optimal utilisation of the EU structural funds and since the EU countries are among the main centres of infection, this would result in an additional negative impact on the Bulgarian economy.

Notwithstanding the above, banks started 2021 with high levels of liquidity and capitalisation and this largely implies stability for their clients. Considering the market situation, ProCredit Bank will take a prudent approach to lending to small and medium-sized enterprises, aiming to strengthen their stability, improve efficiency and accelerate their development and growth. The group applies a case-by-case and pragmatic approach to assessing the financial position of its clients in order to be able to offer the most optimal financing solution in terms of maintaining and improving creditworthiness.

The group will maintain long-term relationships with its current clients by expanding and deepening its business relationships with them, thus aiming to be the only bank providing services to its clients. Proactively attracting new customers will continue to be a major focus in the business strategy of ProCredit Bank. At the same time, in 2021 the group will continue its efforts to maintain the high quality of the loan portfolio. ProCredit Bank will remain a profitable institution as a result of its high efficiency and the expanding business relationships with its clients.

Consolidated Annual Activity Report (continued)

Expected development of ProCredit Bank (Bulgaria) EAD and goals for 2021 (continued)

The challenge will be to maintain the level of operating income in the context of a simultaneous reduction of the interest margin and limited financing of investments by enterprises. At the same time, the high quality of the assets and the optimised structure of the group will result in optimised impairment costs and administrative expenses. Liquidity and capital adequacy levels will be maintained with sufficient buffers in the long run.

The group's development strategy for 2021 is in line with its business philosophy: ProCredit Bank believes that open and active communication with customers, a responsible approach to day-to-day banking and the very good quality of the services provided make it one of the first choice banks for the client. ProCredit Bank also aims to become a reliable and main partner of companies and citizens in the implementation of projects in the field of "green finance" by applying a comprehensive methodology and expert potential for environmental financing as part of the group's integrated approach to the environment.

Management responsibilities

The annual consolidated financial statements for 2020 were prepared in accordance with the International Financial Reporting Standards and reflect fairly the property and financial position of the group and its financial results for the reporting period. The annual consolidated financial statements were prepared on the going concern basis and the accounting policies of the group were consistently applied, and all estimates and assumptions were made in accordance with the precautionary principle in the preparation of the consolidated financial statements for 2020.

The management is responsible for the correct keeping of accounting records, for the appropriate management of the assets and for taking necessary steps to prevent and detect potential fraud and other irregularities.

The consolidated annual activity report was approved by the Management Board and signed on its behalf by:

PROCREDIT BANK (BULGARIA) • SOFIA •

Reni Peycheva
Executive Director and
Member of the Management Board
22 April 2021

Ivan Dachev
Executive Director and
Member of the Management Board

Consolidated Corporate Governance Declaration

Documents of corporate management

ProCredit Bank (Bulgaria) EAD ("ProCredit Bank" or the "Bank") complies with the following documents with respect to its corporate governance:

1. **Articles of association (By-laws) of ProCredit Bank:** a fundamental document regulating the establishment and competences of the group's main management bodies. The Articles of association are available for review by interested parties in the file of ProCredit Bank in the Commercial Register: (https://portal.registryagency.bg/CR/Reports/VerificationPersonOrg). The Articles of association were adopted by the General Meeting of Shareholders. As of 31 December 2020, the Articles of association can be amended only at the meetings of the Sole owner of the capital of the bank.
2. **Code of Conduct of ProCredit Group**. Corporate values form the foundation of the business ethics of the bank as part of ProCredit Group. The following principles guide the activities of ProCredit institutions: Transparency; Culture of open communication; Social responsibility and tolerance; High professional standards; Integrity and personal commitment. These principles are the backbone of ProCredit's corporate culture and are actively applied in the day-to-day work of the institution. They are described in the Code of Conduct of ProCredit (accessible at https://www.procreditbank.bg/web/files/richeditor/coc-web-202006.pdf) which translates the group's ethical principles into practical guidelines for the entire team of the group.

In the past year 2020, ProCredit Bank complied without exception with the requirements of the documents listed above in relation to its corporate governance. The group also complies with the National Corporate Governance Code, as appropriate (http://www.bse-sofia.bg/?page=CodeGovernance).

Information regarding the requirements set out in Article 10(1) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004:

- Point (c) is not applicable to the group because it does not have significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34/EC.
- Point (d) is not applicable to the group because it does not hold securities with special control rights.
- Point (f) is not applicable to the group because it does not hold significant investments in other companies and there is no information regarding restrictions on voting rights.
- Point (h). The rules governing the appointment and replacement of members of the Management Board and the Supervisory Board and the amendment of the articles of association are set out in the Articles of association of the group; the members of the Management Board are appointed by the Supervisory Board for a term of 3 years. The members of the Supervisory Board are appointed by the Sole owner of the capital for a term of 3 years. Decisions to amend the articles of association are taken by the Sole owner of the capital of the group.
- Point (i). The powers of the members of the Management Board and the Supervisory Board, and in particular the power to issue or buy back shares, are set out in the Articles of association of the group. Decisions to issue or buy back shares are taken by the Sole owner of the capital of the group.

Consolidated Corporate Governance Declaration (continued)

Management bodies

The management bodies of the group are as follows:

- Management Board
- Supervisory Board.

ProCredit Bank has a two-tier management system.

Management Board

The group is managed by Management Board which operates under the control of Supervisory Board. The Management Board comprises four members who are elected by the Supervisory Board for a term of three years. The relationships between the group and each member of the Management Board are arranged by a management contract. The Management Board, upon the prior approval of the Supervisory Board, assigns to two or more of its members (Executive Directors) the day-to-day management and representation of the group. The Executive Directors may authorise third parties to perform specific actions. A person who is a member of the Supervisory Board of the group may not be a member of the Management Board. The Management Board has the following competencies:

1. arranges for the preparation of the annual financial statement and the report on the activity of the group;
2. prepares the convening of the session of the Sole owner of the capital and prepare a proposal for the taking of decisions by the Sole owner of the capital;
3. prepares the periodic reports to the Supervisory Board;
4. enacts rules for the organisation of its activity and takes decisions regarding amendments to such rules (any decision under this point requires the prior consent of the Supervisory Board);
5. adopts an annual budget and an annual business plan relating to the activity of the group (any decision under this point requires the prior consent of the Supervisory Board);
6. determines the structure and positions in the group (any decision under this point requires the prior consent of the Supervisory Board);
7. decides on other issues, raised by the Chairperson or by another member of the Management Board;
8. makes decisions for opening and closing of branches and representations of the group (any decision under this point requires the prior consent of the Supervisory Board);
9. takes decisions for the transfer or supplying for use of the whole commercial enterprise (any decision under this point requires the prior consent of the Supervisory Board);
10. makes decisions for disposing of assets whose total value for the current year exceeds half of the value of the group's assets according to the latest audited annual consolidated financial statements (any decision under this point requires the prior consent of the Supervisory Board);
11. makes decisions for taking liabilities or providing collateral to one person or related persons, whose amount for the current year exceeds half of the value of the group's assets according to the latest audited annual consolidated financial statements (any decision under this point requires the prior consent of the Supervisory Board);
12. approves the internal normative acts of the group;
13. take decisions for the granting of credits in the cases of Article 45 of the Law on Credit Institutions;
14. takes decisions that lead to the formation of big exposures;
15. determines the business activity of the group in accordance with the main policy guidelines adopted by the Sole owner of the capital and manages the daily operational activity of the group in accordance therewith;
16. prepares proposals to the Sole owner of the capital for amendments to the By-laws or the main lines of the activity of the group;
17. appoints and dismisses the officers of the group and determines their remuneration;
18. decides on any other matter with respect to which, pursuant to the law or the by-laws, the Sole owner of the capital and the Supervisory Board do not have exclusive power to decide, and performs all other functions, entrusted to it by the Sole owner of the capital or the Supervisory Board.

Consolidated Corporate Governance Declaration (continued)

Management bodies (continued)

The Management Board is convened at meetings at the request of any of its members or of the members of the Supervisory Board.

The Management Board takes its decisions by a simple majority of the members present and represented, except in the following cases: the decisions set out in points 8 to 11 and 13 above, as well as the decisions set out in point 14 in cases where the exposure exceeds 15 per cent of the group's equity shall be taken unanimously by all members of the Management Board.

The decisions of the Management Board concerning the conclusion of transactions whose value exceeds 10% of the registered capital of the group also require the prior consent of the Supervisory Board.

The management board reports to the Supervisory Board on its activities at least once every 3 months.

Supervisory Board

The Supervisory Board consists of five members, each with a term of three years. The relations between the group and each member of the Supervisory Board are regulated by a contract. The members of the Supervisory Board are selected and dismissed by the Sole owner of the capital. The Supervisory Board elects a chairperson and a vice chairperson from among its members. The Supervisory Board does not participate in the management of the group. It represents the group only in its relationship with the Management Board. The Supervisory Board may, at any time, require that the Management Board submits information or a report on any matter concerning the group. The Supervisory Board may also carry out any necessary investigations in performance of its duties, its members can have access to all the necessary information and documents, and it may use the services of experts

Some decisions of the Management Board require the prior consent of the Supervisory Board. This is indicated in the section regarding the competences of the Management Board. The Supervisory Board examines the annual consolidated financial statements, the annual activity report of the group and the proposal on the distribution of earnings and, after approving them, adopts a decision to convene a regular meeting of the Sole owner of the capital.

The Supervisory Board is required to hold meetings at least once every three (3) months. Members of the Management Board can participate in these meetings in an advisory capacity. The Supervisory Board makes decisions by a simple majority of the members represented at the meeting.

Avoiding conflict of interest

The procedures for avoiding and detecting conflicts of interest in relation to the members of the management bodies of ProCredit Bank are laid down in the Articles of association of the group. The members of the Management Board and the Supervisory Board are obliged to put the interests of the group and its clients above their own. They are required to declare and/or disclose information about their participation in commercial companies, as well as about any material commercial, financial or other business interest that they or their family members have in the entering into any commercial transaction with the group.

Audit and internal control

The overall internal control of the group is carried out by the Supervisory Board and the Management Board. The Supervisory Board controls the activities of the Management Board. The Management Board controls the activities of the individual structural units. The group's activities are carried out on the basis of internal rules and procedures, as well as of the applicable legislation.

Consolidated Corporate Governance Declaration (continued)

ProCredit Bank ensures functional independence between risk-taking departments and departments that perform risk assessment. According to the structure of the group, the business processes are segregated by the units that assess the level of risk up to the level of members of the Management Board. In addition, the level of risk and the risk management decisions are assessed in the committees responsible for managing and assessing the individual types of risks; this involves objective control and monitoring of the group's exposure to each risk.

An Internal Audit Department operates in the group and reports directly to the Sole owner of the capital (ProCredit Holding). Internal audit inspects all aspects of the group's operations by performing process checks as well as checks for compliance of the activities performed with the statutory instruments, the articles of association and the internal regulations of the group. The head of the Internal Audit Department informs the Management Board of the group and the members of the Audit Committee of the group of the results of the audits performed. At least three times a year, meetings of the Audit Committee are held at which the Internal Audit Department reports on its activity. The Audit Committee was established at the beginning of 2009 and its members are independent of the group's Management Board.

The specialised audit firms that perform an independent financial audit of the group's consolidated financial statements are approved by the Sole owner of the capital following the submission of a reasoned request and as a result of a tender organised by the Management Board. The Audit Committee supervises internal audit activities and oversees the overall relationship with the external auditor, including the nature of non-audit services provided by specialised audit firms.

Main features of the internal control system and of the risk management system in connection with the financial reporting process

Control environment

The institution's business model and ethical values are a prerequisite for the existence of an adequate internal control environment within the group. The business model has a clear focus on providing comprehensive banking services to small and medium-sized enterprises and individuals through the provision of high-quality services. The focus on business clients with a clear vision and sustainable development means that ProCredit Bank builds with such clients long-term relationships based on understanding their needs and offering appropriate solutions while ensuring that there is no over-indebtedness.

As stated in the Code of Conduct of ProCredit Group, the development concept and the approach to clients is linked with a great responsibility to the society in which the group operates. Self-imposed ethical principles are also applied. These principles can only exist if they are effectively communicated, understood and accepted by all employees, and this is reflected in the careful selection and development of the group's employees.

Risk management

ProCredit Bank understands that risk taking is an integral part of its business. Therefore, there are mechanisms in place to identify the various risks and assess their potential impact on the financial position and the achievement of the group's business objectives. The awareness of both management and employees of the risks, the inherent conservative approach to risk management and the consistent implementation of diversification are an integral part of the business and risk strategy of the institution. In addition, the basic principles of the risk strategy (focus on core business; high level of transparency, simplicity and diversification; careful selection and intensive training of staff) contribute significantly to the effective management of the risks to which the group is exposed.

Consolidated Corporate Governance Declaration (continued)

Main features of the internal control system and of the risk management system in connection with the financial reporting process (continued)

Control activities
The control activities within the risk management strategy are documented in specially approved group policies, group standards and other documents that cover all material risks to which the group is exposed and that support the carrying out the various operations in a secure manner, and the transactions are reflected in accordance with the requirements set out in the manual. Control activities are implemented at all levels and in all processes within the institution based on the four-eye and the segregation of duties principles. The basic organisational principle is the segregation, up to the level of the Management Board, of risk and business units, thus ensuring functional independence between the business departments that take the risk and the departments responsible for risk assessment.

Information and communication flows
Effective communication channels are in place to ensure the exchange of information within the horizontal and vertical organisational structure of the institution. Mechanisms have also been put in place to receive and share information from external sources (such as regulators, shareholders and clients), as well as for subsequent communication with these persons. The Management Board receives regular (daily, monthly and quarterly) reports on risk management. If new risk events, failure to comply with approved internal limits and increased likelihood of loss are identified, mechanisms for escalation and extraordinary reporting are applied.

Monitoring
Mechanisms for ongoing monitoring of the various activities as well as of the internal control systems have been developed and put in place in the group. Monitoring is carried out both by the management and by the relevant responsible employees. The Internal Audit Department also conducts an independent evaluation of internal control systems in accordance with a plan approved by the Sole owner of the capital. Gaps identified in the internal control system are escalated and can be reported to the Management Board, the Supervisory Board or the Audit Committee.

Bodies responsible for preventive and ongoing risk management. Existing committees in the structure of the group

An adequate risk identification, management and control system has been established in the group. The committees responsible for managing the individual types of risks are at the core of this system and their main function is to create and maintain an adequate control environment based on the principles and mechanisms for identifying, defining, assessing, monitoring and controlling/mitigation of the individual types of risks. These committees are the main bodies that make corrective or preventative decisions aimed at minimising exposure to particular types of risk. The work of the committees is assisted by the Risk Management Department and the Management Information System Department that prepare risk indicators and provide analyses of relevant indicators and additional analyses to support management decisions in the area of risk control and management. The decisions made by the individual committees are approved by the Management Board.

The main committees that monitor, analyse and control the different types of risk include representatives of both the risk management and the business lines, as well as of the lines that perform administrative functions. This allows both a synergic effect of presenting different viewpoints on issues related to risk management and covering the different areas of activity and their impact on risk exposures. The main committees are as follows:

Consolidated Corporate Governance Declaration (continued)

<u>Bodies responsible for preventive and ongoing risk management. Existing committees in the structure of the group (continued)</u>

Assets and Liabilities Committee
The objective of the Assets and Liabilities Committee (ALCO) at ProCredit Bank is to identify, assess, discuss and manage financial risks which include liquidity risk; market risk (including currency and interest rate risk); counterparty risk; capital adequacy. ALCO monitors the status and impact of the asset/liability management strategies implemented and develops new ones.

The committee comprises the members of the Management Board, as well as managers and experts from Management Information System Department and Risk Management Department. Regular meetings of ALCO are held at least once a month. The committee is elected and managed by the Management Board.

General Risk Assessment Committee
Regular meetings of the committee are held once every three months in order to analyse the overall risk exposure of the group (excluding operational risk) and to discuss and adopt strategic issues. The Risk Management Department prepares a quarterly report on the overall risk for the committee meetings; said report includes the main and secondary indicators of the types of risk, as well as their analysis.

The committee comprises the members of the Management Board, managers from Management Information System Department, Risk Management Department and Business Department – Small and Medium Clients. The committee is elected and managed by the Management Board.

Operational Risk Management Committee
The Operational Risk Management Committee is a body within the structure of the group that is elected and managed by the Management Board. The committee provides an opportunity for adequate management of operational risks and for taking decisions in this regard. The following two subcommittees are also integrated into the Operational Risk Management Committee: Compliance Committee and Committee on Safety at Work.

The committee comprises the members of the Management Board in charge of Risk and Finance, as well as the heads of Business Department – Small and Medium Clients, Business Department – Private Individuals, Risk Management Department, Accounting Department, Information Technologies Department and Credit Administration Department. Regular meetings of the committee are held once every three months to discuss the operational risk report and to review events that have led to a loss for the group as a result of operational events.

Credit Risk Management Committee
The Credit Risk Management Committee is a body within the structure of the group that is elected and managed by the Management Board. The functions of the committee are related to the monitoring, analysis and discussion of issues and topics related to credit risk and its manifestation in the group. The committee is also involved in the process of determining the cost of impairment losses on individually measured credit exposures.

The committee comprises the member of the Management Board in charge of Risk, as well as managers from Risk Management Department and Credit Risk Department. Regular meetings of the committee are held at least once every three months in order to assess the impact of the relevant factors related to credit risk management.

Consolidated Corporate Governance Declaration (continued)

Bodies responsible for preventive and ongoing risk management. Existing committees in the structure of the group (continued)

Credit Committee on Restructuring
The Credit Committee on Restructuring monitors and assesses the group’s risk exposures by deciding on their restructuring and classification. Restructuring occurs when credit exposure conditions change as a result of the conclusion of an agreement between the group and the customer that changes the repayment terms of the loan due to an increased risk of default on the exposure related to the borrower. The members of the Credit Committee on Restructuring are employees from Problematic Receivables Unit of the group’s Risk Management Department, and meetings are held every week or as necessary.

Court Receivables Committee
The purpose of the Court Receivables Committee is to set, discuss and decide on the strategy for recovery of court claims with a value of more than EUR 100,000, to set deadlines and designate officials responsible for the actions to be taken, and to monitor the implementation of the actions. The members of the committee are determined by the Management Board. The committee comprises member of the Management Board and the head of the Problematic Receivables Unit. Meetings of the committee are held at least once a month.

Environment Committee
This committee discusses and decides on issues related to environmental standards and the overall policy and strategy of ProCredit Bank regarding the environmental impact management system. The committee comprises the members of the Management Board and the heads of Environmental Department, Business Department – Small and Medium Clients, Credit Risk Department and Administration Department. The meetings are held at least once every quarter.

Crisis Management Committee
The task of the Crisis Management Committee is to define and manage the measures to be taken by the group when dealing with a crisis arising from a materialised threat. It has a permanent composition and comprises the members of the Management Board and the heads of core business processes. A member of the Management Board or another person designated by the Management Board is a chairperson of the committee. The Crisis Management Committee is authorised to provide and allocate the resources (human and material) needed to deal with the crisis, as well as to control and reporting on the costs. The Crisis Management Committee manages and dynamically allocates responsibilities to the Failure Assessment Team, the IT Crisis Management Committee and the business continuity coordinators across departments and offices.

Human Resources Committee
This committee monitors changes in the labour market situation in the country, the pay levels inside and outside the group, reviews salaries and decides on topics affecting current or potential employees of the institution. It comprises the Chairperson of the Supervisory Board, the members of the Management Board and a manager of a business unit. The meetings are held each month.

Committee for the selection of candidates for members of the Management Board
The committee meets as necessary. It consists of the Chairperson of the Supervisory Board and another member of the Supervisory Board.

Working Conditions Safety Committee
The committee assesses the safety of working conditions in the group, gives recommendations for their optimization and presents analyses related to these topics. Incidents related to occupational safety, if any, shall also be submitted to the committee. It is integrated in the Operational Risk Management Committee.

Consolidated Corporate Governance Declaration (continued)

Diversity policy applied to administrative, management and supervisory bodies

The ProCredit Group appreciates diversity in terms of the personal qualities and experience of its employees. In this context, the process of selecting the members of the Management Board and the Supervisory Board aims at ensuring an adequate level of diversity in the management bodies. As a result, both bodies include individuals who have different profiles in terms of education, nationality, professional experience and age. Of the nine members of ProCredit Bank's management bodies, three are women.

The consolidated corporate governance declaration was approved by the Management Board and signed on its behalf by:

Reni Peycheva
Executive Director and
Member of the Management Board
22 April 2021

PROCREDIT BANK (BULGARIA) EAD • SOFIA •

Ivan Dachev
Executive Director and
Member of the Management Board